





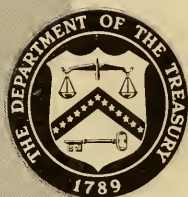
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# ANNUAL REPORT

of the Secretary of the Treasury  
on the State of the Finances



***FOR THE FISCAL YEAR ENDED JUNE 30, 1968***

TREASURY DEPARTMENT

DOCUMENT NO. 3245

*Secretary*

U.S. GOVERNMENT PRINTING OFFICE, WASHINGTON : 1969

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NOTE.—Details of figures may not add to totals because of rounding.



SECRETARIES, UNDER SECRETARIES, GENERAL COUNSELS, ASSISTANT SECRETARIES, SPECIAL ASSISTANTS TO THE SECRETARY (FOR ENFORCEMENT), AND DEPUTY UNDER SECRETARIES FOR MONETARY AFFAIRS, SERVING IN THE DEPARTMENT OF THE TREASURY FROM JANUARY 20, 1965, THROUGH NOVEMBER 1, 1968 <sup>1</sup>

Term of service		Officials
From	To	
		<i>Secretaries of the Treasury</i>
Jan. 21, 1961 Apr. 1, 1965	Apr. 1, 1965 -----	Douglas Dillon, New Jersey. Henry H. Fowler, Virginia.
		<i>Under Secretary</i>
Apr. 29, 1965	-----	Joseph W. Barr, Indiana.
		<i>Under Secretary of the Treasury for Monetary Affairs</i>
Feb. 1, 1965	-----	Frederick L. Deming, Minnesota.
		<i>General Counsels</i>
Nov. 16, 1962 Apr. 12, 1966	Jan. 31, 1965 -----	G. d'Andelot Belin, Massachusetts. Fred B. Smith, Maryland.
		<i>Assistant Secretaries</i>
Apr. 24, 1961 Dec. 20, 1961 Sept. 18, 1963 Apr. 29, 1965 Sept. 14, 1965 Aug. 2, 1966 Mar. 19, 1968 May 15, 1968	----- Sept. 1, 1965 ----- June 10, 1966 Jan. 15, 1968 Jan. 31, 1968 ----- -----	Stanley S. Surrey, Massachusetts. James A. Reed, Massachusetts. Robert A. Wallace, Illinois. Merlyn N. Trued, New Jersey. W. True Davis, Jr., Missouri. Winthrop Knowlton, New York. Joseph M. Bowman, Georgia. John R. Petty, New York.
		<i>Special Assistants to the Secretary (for Enforcement)</i>
Sept. 16, 1965 Apr. 4, 1967	Feb. 10, 1967 -----	David C. Acheson, District of Columbia. James P. Hendrick, District of Columbia.
		<i>Deputy Under Secretaries of the Treasury for Monetary Affairs</i>
Dec. 3, 1963 Nov. 24, 1965 Feb. 12, 1968	Nov. 23, 1965 Nov. 11, 1967 -----	Paul A. Volcker, New Jersey. Peter D. Sternlight, New York. Frank W. Schiff, New York.
		<i>Fiscal Assistant Secretary</i>
June 15, 1962	-----	John K. Carlock, Arizona.
		<i>Assistant Secretary for Administration</i>
Sept. 14, 1959	-----	A. E. Weatherbee, Maine.

<sup>1</sup> For officials from Sept. 11, 1789, to Jan. 20, 1965, see the 1965 annual report exhibit 69, pp. 449-457.

# **PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE DEPARTMENT OF THE TREASURY AS OF NOVEMBER 1, 1968**

Secretary of the Treasury-----	Henry H. Fowler
Special Assistant to the Secretary-----	Douglass Hunt
Under Secretary of the Treasury-----	Joseph W. Barr
Special Assistant to the Under Secretary-----	Mark A. Weiss
Under Secretary for Monetary Affairs-----	Frederick L. Deming
Deputy Under Secretary for Monetary Affairs-----	Frank W. Schiff
Director, Office of Domestic Gold and Silver Operations-----	Thomas W. Wolfe
Director, Office of Financial Analysis-----	John H. Auten
Director, Office of Debt Analysis-----	Edward P. Snyder
Assistant to the Secretary (Debt Management)-----	R. Duane Saunders
General Counsel-----	Fred B. Smith.
Deputy General Counsel-----	Roy T. Englert
Assistant General Counsel-----	Charlotte Tuttle Lloyd
Assistant General Counsel-----	Michael Bradfield
Assistant General Counsel-----	Hugo A. Ranta
Assistant General Counsel-----	Donald L. E. Ritger
Chief Counsel, Foreign Assets Control-----	Stanley L. Sommerville
Director of Practice-----	William H. Sager
Assistant Secretary-----	Stanley S. Surrey
Deputy Assistant Secretary-----	William F. Hellmuth, Jr.
Director, Office of Tax Analysis-----	Gerard M. Brannon
Tax Legislative Counsel-----	Vacancy
Special Assistant for International Tax Affairs-----	Robert T. Cole
Assistant Secretary-----	Robert A. Wallace
Special Assistant to Assistant Secretary-----	Vacancy
Director, Employment Policy Program-----	Mrs. Mary F. Nolan
Associate Director, Employment Policy Program-----	David A. Sawyer
Assistant Secretary-----	Joseph M. Bowman
Deputy to the Assistant Secretary-----	Matthew J. Marks
Deputy to the Assistant Secretary (Congressional Relations)-----	Joseph L. Spilman, Jr.
Deputy to the Assistant Secretary (Congressional Relations)-----	Samuel M. Jones
Assistant Secretary-----	John R. Petty
Deputy Assistant Secretary-----	John C. Colman
Deputy to Assistant Secretary for International Monetary Affairs-----	George H. Willis
Deputy to Assistant Secretary for International Financial and Economic Affairs-----	Ralph Hirschtritt
Special Assistant to the Secretary (for Enforcement)-----	James P. Hendrick
Deputy Special Assistant to the Secretary (for Enforcement)-----	Charles C. Humpstone
Fiscal Assistant Secretary-----	John K. Carlock
Deputy Fiscal Assistant Secretary-----	Hampton A. Rabon
Assistant Fiscal Assistant Secretary-----	Boyd A. Evans
Assistant to Fiscal Assistant Secretary-----	Vacancy
Assistant to Fiscal Assistant Secretary-----	Sidney Cox

Assistant Secretary for Administration-----	A. E. Weatherbee
Deputy Assistant Secretary for Admin- istration and Director, Office of Budget and Finance-----	Ernest C. Betts, Jr.
Director, Office of Planning and Pro- gram Evaluation-----	Benjamin Caplan
Director, Office of Personnel-----	Amos N. Latham, Jr.
Director, Office of Management and Organization -----	J. Elton Greenlee
Director, Office of Administrative Services -----	Paul McDonald
Director, Office of Security-----	Thomas M. Hughes
Assistant to the Secretary (Public Affairs)--	John F. Kane
Deputy Assistant to the Secretary (Public Affairs)-----	Edgar A. Comee
Assistant to the Secretary (National Secu- rity Affairs)-----	Raymond J. Albright
Deputy Assistant to the Secretary (National Security Affairs)-----	William F. Hausman
National Security Affairs Adviser----	Robert G. Efteland
National Security Affairs Adviser----	Clyde C. Crosswhite
National Security Affairs Adviser----	William N. Turpin
Financial Adviser-----	Robert W. Bean
Director, Office of Foreign Assets Control -----	Mrs. Margaret W. Schwartz
Senior Consultant-----	Seymour E. Harris
Director, Executive Secretariat-----	James E. Ammerman (Acting)

BUREAU OF ACCOUNTS

Commissioner of Accounts-----	Sidney S. Sokol
Assistant Commissioner-----	L. D. Mosso
Comptroller -----	Steve L. Comings
Chief Disbursing Officer-----	Lester W. Plumly
Deputy Commissioner for Central Accounts and Reports-----	Howard A. Turner
Deputy Commissioner for Deposits and Investments -----	Sebastian Fama

BUREAU OF CUSTOMS

Commissioner of Customs-----	Lester D. Johnson
Deputy Commissioner of Customs-----	Edwin F. Rains
Assistant Commissioner, Office of Admin- istration -----	Glenn R. Dickerson
Assistant Commissioner, Office of Inves- tigations -----	Lawrence Fleishman
Assistant Commissioner, Office of Operations	David C. Ellis
Assistant Commissioner, Office of Regula- tions and Rulings-----	Robert V. McIntyre
Chief Counsel-----	Alfred H. Golden

BUREAU OF ENGRAVING AND PRINTING

Director, Bureau of Engraving and Printing	James A. Conlon
Deputy Director, Bureau of Engraving and Printing-----	Donald C. Tolson

BUREAU OF THE MINT

Director of the Mint-----	Miss Eva Adams
Assistant Director of the Mint-----	Frederick W. Tate

BUREAU OF THE PUBLIC DEBT

Commissioner of the Public Debt-----	Donald M. Merritt
Assistant Commissioner-----	H. J. Hintgen
Deputy Commissioner-----	J. J. Lubeley
Deputy Commissioner in Charge, Chicago Office -----	Michael E. McGeoghegan

## INTERNAL REVENUE SERVICE

Commissioner of Internal Revenue-----	Sheldon S. Cohen
Deputy Commissioner-----	William H. Smith
Assistant Commissioner (Administration)-----	Edward F. Preston
Assistant Commissioner (Inspection)-----	Vernon D. Acree
Assistant Commissioner (Compliance)-----	Donald W. Bacon
Assistant Commissioner (Data Processing)-----	Robert L. Jack
Assistant Commissioner (Planning and Research)-----	Albert W. Brisbin
Assistant Commissioner (Technical)-----	Harold T. Swartz
Chief Counsel-----	Lester R. Uretz

## OFFICE OF THE COMPTROLLER OF THE CURRENCY

Comptroller of the Currency-----	William B. Camp
First Deputy Comptroller-----	Justin T. Watson
Administrative Assistant to the Comptroller-----	John Nicoll
Deputy Comptroller-----	John D. Gwin
Deputy Comptroller-----	Thomas G. DeShazo
Deputy Comptroller-----	David C. Motter
Chief National Bank Examiner-----	F. H. Ellis
Deputy Comptroller (Mergers and Branches)-----	R. J. Blanchard
Deputy Comptroller (Trusts)-----	Dean E. Miller
Deputy Comptroller (FDIC Affairs)-----	Albert J. Faulstich
Chief Counsel-----	Robert Bloom

## OFFICE OF THE TREASURER OF THE UNITED STATES

Treasurer of the United States-----	Vacancy
Deputy Treasurer-----	William T. Howell
Assistant Deputy Treasurer-----	Willard E. Scott

## UNITED STATES SAVINGS BONDS DIVISION

National Director-----	Glen R. Johnson
Assistant National Director-----	Elmer L. Rustad

## UNITED STATES SECRET SERVICE

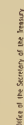
Director-----	James J. Rowley
Deputy Director-----	Rufus W. Youngblood
Assistant Director (Administration)-----	Phil W. Jordan
Assistant Director (Investigations)-----	Burrill A. Peterson
Assistant Director (Protective Forces)-----	Thomas L. Johns
Assistant Director (Protective Intelligence)-----	Thomas J. Kelley

## COMMITTEES AND BOARDS

Chairman, Treasury Management Committee-----	A. E. Weatherbee
Chairman, Treasury Awards Committee-----	Amos N. Latham, Jr.
Chairman, Treasury Wage Board-----	Amos N. Latham, Jr.
Employment Policy Officer-----	Robert A. Wallace
Principal Compliance Officer-----	Robert A. Wallace



NOVEMBER 1, 1968



## CHART 1





## ANNUAL REPORT ON THE FINANCES

TREASURY DEPARTMENT,  
*Washington, December 9, 1968.*

SIRS : I have the honor to report to you on the finances of the Federal Government for the fiscal year 1968. The main text of this report consists of a detailed review of Treasury fiscal operations and administrative reports of the offices under my supervision during the fiscal year 1968, along with supporting exhibits. This general introduction reviews the major fiscal and financial developments that have taken place since the time of my last report in May of this year. Also, since this is my final report as Secretary of the Treasury, I will take the liberty of commenting briefly upon some of the accomplishments of recent years and the problems that remain.

### Overall Review

It has been a major objective of policy during the past year to reverse decisively the trend toward larger deficits in our internal budget and in our international balance of payments, while continuing to sustain the current economic expansion. Despite the delay in enactment of the fiscal restraint program until late June, encouraging progress has been made toward the achievement of a better degree of financial balance and the economy continues to expand vigorously.

Enactment of the fiscal restraint package in late June marked a significant change in the national financial position. The budget deficit, which had become excessively large, was turned decisively in the direction of balance. Internationally, the enactment of fiscal restraint greatly strengthened foreign confidence in the dollar. Our balance of payments has shown steady improvement during the course of the year and a small surplus was actually registered on the liquidity basis during the third quarter—the first such quarterly surplus in 3 years.

During the calendar year 1968, the economy continued to grow at a relatively rapid pace. Delay in enactment of the fiscal restraint package contributed to the rapidity of the advance and led to some intensification of inflationary pressures. During the first half of the year, gross national product in constant prices rose at more than a 6 percent annual rate—appreciably above the approximately 4 percent trend rate of growth in capacity. This more than 6 percent rate of growth in real output represented a significant acceleration from a rate slightly below 4 percent in the second half of calendar 1967.

The upward movement of prices, which moderated during the first half of 1967, had already stepped up by the second half of 1967. The further quickening in the pace of expansion in the first half of calendar 1968 added to inflationary pressures. Therefore, a shift to fiscal restraint was badly needed in order to bring inflationary tendencies under better control and to start a movement back toward relative price stability. This was recognized as essential for the continued strength and stability of the dollar at home and abroad.

During the second half of calendar 1968 the expansion of the economy gradually began to show some moderating tendencies. Fiscal restraint did not have a strong, immediate effect upon the overall pace of economic expansion, nor was it expected to. But, the rise in gross national product in the third quarter was somewhat below the faster pace of the first half, although final sales were very strong. Moderate easing of the pace of expansion appeared to be probable in the period ahead, but there were no signs of the fiscal "overkill" that some had feared at the time the need for fiscal restraint was being debated.

The budget deficit on national income account fell sharply from a rate of about \$10 billion to a rate of \$3 billion by the third quarter of 1968. The move toward fiscal restraint will be continuing in the first half of calendar 1969 when the national income budget is expected to swing into surplus. On a unified budget basis, the deficit had soared to \$25.2 billion in fiscal 1968 when legislative delays were encountered in implementing fiscal restraint. In the early parts of fiscal 1969 the deficit position on the unified basis began to narrow quickly. While a final assessment will necessarily await the January budget, it appeared that the budget results for fiscal 1969 would be greatly improved from the \$5 billion deficit estimated in the midyear budget review of September 1968.

Immediate and substantial relief on the price front could not be expected. While there were some encouraging signs in the second half of calendar year 1968, it would take a considerable period of time for a noninflationary pattern of expansion to be reestablished. The strength of inflationary tendencies in late 1968 only underlined the importance of the move toward fiscal restraint begun at mid-1968. In the absence of that fiscal move, there would have been serious risk of an inflationary breakout of prices. This would have threatened the current expansion and delayed unduly the achievement of balance-of-payments equilibrium. While the fiscal action was long delayed, it was taken in time to avert these serious consequences.

With demand pressures easing a little and a period of somewhat moderate growth in prospect for the first half of calendar 1969, some improvement in price performance was a reasonable expectation. How-

ever, cooperation and restraint on the part of both business and labor would be vitally important to the early restoration of a more stable cost-price relationship.

The improved Federal budgetary outlook was already becoming an important influence in the money and credit markets in the second half of calendar 1968. During the third quarter the net market impact of Federal finance was little changed from the corresponding period a year earlier. But by the fourth quarter there was a significant decline in Federal financial requirements relative to a year earlier.

In the first half of calendar 1969, the Federal financial sector will return to the traditional seasonal pattern of sizable repayment of debt. The net effect would be a very appreciable reduction of pressures from this source on the money and capital markets. However, private demands for credit were still running at a relatively high rate in the second half of 1968. After some initial easing in response to passage of the Revenue and Expenditure Control Act of 1968, interest rates rose irregularly during the late summer and into the autumn.

On the international side, substantial progress was made during 1968 toward achieving equilibrium in the balance of payments. A huge deficit in the fourth quarter of 1967 was reduced sharply in the first quarter of 1968 as the Action Program announced by President Johnson on New Year's Day got underway. In the second quarter, the liquidity deficit declined further and actually moved into a small surplus position in the third quarter. On the official settlements basis, results were equally impressive.

This sharp improvement in the balance of payments was extremely welcome. However, transitory elements were responsible for some of the improvement. Furthermore, the composition of the balance was far from ideal. A large part of the improvement was attributable to foreign capital inflows whose continuation on that scale was far from assured. The trade account did begin to show signs of improvement after the second quarter but was still at very low levels. It was clear that a prolonged effort would be required to rebuild the trade surplus to a satisfactory level. A period of moderate domestic growth and a return to a less inflationary environment would be of great help in strengthening the trade position.

The notable balance-of-payments progress achieved in 1968 had necessarily relied primarily on temporary measures. The long term measures to increase exports, to reduce nontariff barriers and to increase foreign investment and travel in the United States have only begun to have an impact. Moreover, the continuation of a high level of military expenditures in the Far East has limited our ability to neutralize Government expenditures abroad. Certainly, until the full effects of longer run measures materialize, we cannot safely abandon the tem-



porary measures, particularly the restraints over U.S. capital outflow, which are accountable for so much of the recent improvement.

In the international financial area, the past year has seen a number of important developments. Two major threats to the continued stability of the international financial system were dealt with effectively by cooperative action. The first occurred early in the year and centered around speculative activity in the gold market. The second occurred late in the year and involved special measures to deal with the international financial repercussions of large speculative capital inflows to West Germany. In each case, multilateral consultation and discussion among the major financial nations led to an agreed upon course of action and at least a temporary resolution of the problems encountered.

Against a background of multilateral cooperation, further progress was made during the year toward the activation of the Special Drawing Rights machinery to provide by deliberate decision over the years ahead new reserve assets supplemental to gold and dollars. On June 19, 1968, President Johnson signed the bill authorizing U.S. participation in the Special Drawing Rights Plan. The U.S. acceptance of the proposed amendment to the Fund's Articles of Agreement and certificate of participation were then transmitted to the Fund. The United States was the first Fund member to complete both steps. As I indicated in my remarks at the Annual Meeting of the Fund and the World Bank, the U.S. Government was proud to act promptly both to ratify the amendments establishing the Special Drawing Rights facility and to deposit its instrument of participation.

### **Tax Policy**

The major tax development since the time of my last report was the Revenue and Expenditure Control Act of 1968 (Public Law 90-364) which was approved by President Johnson on June 28, 1968. This measure not only increased taxes but also required reduction in Federal spending and employment and amended the Social Security Act. Fuller details on this and other developments in tax policy during the fiscal year 1968 are provided on pages 25-37 of the accompanying report.

Since there was lengthy legislative delay in enactment of the fiscal restraint package, a brief review of the events leading up to its final passage may be useful. The initial proposal for a general increase in income taxes was made by President Johnson in his state of the Union message of January 10, 1967. He called for a surcharge of 6 percent on both individual and corporate income taxes to last for 2 years or so long as the unusual expenditures associated with our efforts in Vietnam continue. The temporary surcharge was to be effective from July 1, 1967.

As revised estimates of revenues and expenditures made it clear that the budget deficit would be much larger than had been anticipated in early 1967, President Johnson requested on August 3, 1967, that the surcharge be raised from 6 to 10 percent. Aside from the recommendation for a 10-percent surcharge the President repeated his January 1967 recommendations for a further speedup of corporate tax collections and a postponement of scheduled reductions in excise taxes. In addition, the President urged the Congress to exercise the utmost restraint and responsibility in the appropriations process and to make every effort not to exceed the January budget estimates. For its part, the executive branch promised to take every proper action within its power to reduce expenditures in the January budget.

Hearings were held on the tax proposals at the House Ways and Means Committee in August and September and again in November 1967 following the devaluation of sterling. At the November hearings the Administration presented a two-part plan: the tax proposals and a specific statutory plan for expenditure reduction in fiscal 1968 from the levels then in prospect. While the Ways and Means Committee did not take favorable action on the proposals, the expenditure reduction part of the plan was implemented by joint congressional and executive action in December 1967.

On January 22, 1968, the House Ways and Means Committee resumed its hearings on the President's tax proposals. The committee took favorable action on the corporate tax acceleration and excise tax components of the tax package, but not on the proposed 10-percent surcharge on individual and corporate income tax liabilities. The corporate tax acceleration and the postponement of scheduled excise tax reductions were passed by the House of Representatives on February 29, 1968.

The scene then shifted to the Senate. The Senate Finance Committee approved action on excise taxes and the corporate tax acceleration but decided, on a close vote, against the proposed 10-percent surcharge. On the floor of the Senate, however, the 10-percent surcharge and a ceiling on Federal expenditures, along with a number of other amendments were added to the excise tax and corporate acceleration legislation.

The bill went to conference in early April but further delay ensued. The House finally agreed to the conference report on June 20 and the Senate on June 21. The Revenue and Expenditure Control Act of 1968 (Public Law 90-364) was signed by the President on June 28, 1968. In addition to its tax provisions and the amendment of certain provisions of the Social Security Act, the final legislation provided limitations on 1969 budget authority and outlays of \$10 billion and \$6 billion, respectively, below the levels estimated in the 1969 budget with certain

specific exceptions. It also required specific recommendations by the President in the budget message for fiscal 1970 for rescinding \$8 billion of carryover obligational authority.

At the time of final congressional action, I indicated my belief that the decisive vote increasing taxes and decreasing projected public expenditures—both unpopular measures in an election year—should go far to sustain confidence in the dollar, the economy on which it is based, and our system of government. The favorable congressional action was a momentous decision—to pay our nation's bills and order our economic and financial affairs in such a manner as to reduce sharply the twin deficits in our budget and international balance of payments. Events since June 1968 have only served to reinforce my belief that the passage of the Revenue and Expenditure Control Act of 1968 was a crucial step, marking a decisive improvement in our financial affairs.

### **Financial Policies and Debt Management**

In the domestic financial area, the past year has been one of continuing strong demands in our money and capital markets. During the first part of calendar 1968, the Federal Reserve was applying some monetary restraint. Following the devaluation of sterling in November 1967, the discount rate was raised from 4 percent to 4½ percent. In early 1968, with little apparent progress being made toward the enactment of a fiscal restraint program, the discount rate was raised in two further one-half point steps (March 15, 1968, and April 19, 1968) to a level of 5½ percent. In January reserve requirements on demand deposits in excess of \$5 million were raised by one-half of one percent and in April the maximum rates payable on certificates of deposit were raised to 6¼ percent on the longest maturities. Total and non-borrowed reserves increased substantially in January and February but then remained about flat through the middle of the year.

Both short and long term interest rates on Government securities dipped early in 1968 after rising steadily in the last half of 1967. Three-month Treasury bills averaged a bit less than 5 percent in February 1968 after edging above 5 percent earlier in the year. Interest rates on Government securities then rose until late May when the expectation of imminent fiscal action sponsored an easing trend. At the high point in late May, 3-month Treasury bills reached 5.92 percent and longer bills edged above 6 percent. Intermediate coupon rates moved up about one-half of one percent in this period. High grade corporate and municipal bond yields also moved higher.

An easing trend in interest rates began before the passage of the Revenue and Expenditure Control Act of 1968 and was accommodated by monetary policy during the summer. In August the discount rate was reduced from 5½ percent to 5¼ percent. The Board of Governors



of the Federal Reserve System stated that the change was primarily technical, to align the discount rate with the change in money market conditions which had occurred chiefly as a result of the increased fiscal restraint and a lower Treasury demand for financing resulting from the enactment of the tax increase and its related expenditure cuts.

With the economy moving ahead rapidly and private demands for credit continuing to be strong, interest rates began to move back up again by early autumn. Three-month Treasury bills which averaged 5.10 percent in August were near 5½ percent by late November. Most other interest rates rose during this period and yields on some private securities were not far below their highs for the year. New Aa-rated corporate bonds were slightly above 7 percent, new municipal bonds were at 4⅝ percent and new home mortgages were about 7¼ percent. Most rates rose further in early December.

A relatively large volume of private securities had been offered for sale during the course of the year, partly accounting for the continuing high level of interest rates. Gross corporate offerings appeared likely to total some \$21 billion for the year—only slightly below the record 1967 total of \$24 billion. State and local offerings in 1968 were running about 13 percent above the 1967 rate and would probably reach some \$16½ billion for the year as a whole.

While private demands for credit appeared likely to remain relatively strong, there had been a pronounced alteration in the Federal financial position with the passage of the tax and expenditure legislation. Federal demands continued to run at a fairly high level in the third quarter of 1968 but then began to fall off very appreciably. This was readily apparent from a comparison of prospective Federal market impact for the final three quarters of fiscal 1969 with the corresponding period of fiscal 1968. In the earlier period—the last three quarters of fiscal 1968—there was a net market demand by the Federal sector of about \$9 billion. This was after adjustment for Treasury cash, purchases of Government Investment Accounts and the Federal Reserve, sales of nonmarketable issues, and included all direct Treasury finance plus all agency borrowings. The final three quarters of fiscal 1969 were expected to result in a net market paydown of about \$7 billion on the same basis. The swing of some \$15 billion in Federal financial requirements was an extremely important development.

The bulk of Treasury cash requirements between mid-1968 and the end of the calendar year was met through the issuance of tax anticipation bills which helped to insure a minimum market impact. (A full discussion of debt management activities during the fiscal year 1968 will be found in the body of this report, pages 11–25). A \$4 billion offering of March and April 1969 tax anticipation bills in early July began the Treasury's financing operations in the second half of calendar

1968. Approximately \$5 billion more of tax bills were sold in the balance of the year—\$3 billion in October and the final \$2 billion at the end of November.

Major financing operations were conducted in August and again in late October. The books were open on August 5 for a cash offering of  $5\frac{5}{8}$  percent, 6-year notes, priced to yield about 5.70 percent. This issue raised some new cash but the bulk of the proceeds was used to pay off issues maturing at mid-August. In late October the books were open for an exchange offering. The holders of November 15 and December 15 maturities were offered an exchange into either a  $5\frac{5}{8}$  percent, 18-month note, priced to yield 5.73 percent or a 6-year  $5\frac{3}{4}$  percent note, originally issued as a 7-year note on November 15, 1967.

The financing operations in the second half of calendar year 1968 were conducted smoothly and successfully. With the peak period of Federal demand in the past and the budget moving toward balance, the Government's financial outlook was greatly improved.

### **International Financial Affairs**

A summary of a wide range of developments in international financial affairs through fiscal 1968 will be found in the text of this report (pages 37–55). Attention will be confined here to major developments during the year in the U.S. balance of payments and the progress made toward improved international financial arrangements.

### **Balance of Payments**

During the first three quarters of calendar year 1968 steady improvement was registered in the U.S. balance of payments. The impetus for this improvement was provided by President Johnson's Action Program for the balance of payments announced on January 1, 1968. In 1967, the deficit on the liquidity basis reached \$3.6 billion and returned near the deficit levels of 1959 and 1960. On the official reserve transactions basis, the deficit for calendar 1967 was \$3.4 billion. U.S. gold losses in 1967 rose to \$1,170 million, about double the \$571 million loss in 1966. Much of the deterioration occurred in the final quarter of the year when the liquidity deficit reached \$1,742 million and gold losses exceeded \$1 billion. The heavy pressure in gold markets continued in early 1968 until it was checked by international agreement on new arrangements with respect to private gold markets.

Some part of the large fourth-quarter 1967 balance-of-payments deficit was due to such temporary factors as the weakness of sterling and the effects of work stoppages in this country. Even after allowance for these and other special factors, however, it was clear that there had been a significant worsening of the deficit during 1967 and that a tightening of the balance-of-payments program was essential under the circumstances. President Johnson announced the details of the new



balance-of-payments program in a special message on January 1, 1968. Major emphasis was placed on the close relationship between the domestic economy and the balance of payments. The Presidential statement stressed the need for fiscal restraint and called on business and labor to exercise the utmost responsibility in their wage-price decisions.

The new balance-of-payments program consisted of temporary measures in the areas of direct investment, lending by financial institutions, foreign travel, and Government overseas expenditure. In addition, long term measures were proposed to increase U.S. exports, deal with the problem of nontariff barriers, and encourage foreign investment and travel in the United States. The program embodied a comprehensive approach to the problem with savings sought in all major areas of the balance of payments. It was evolutionary in the sense of building upon the experience gained from previous balance-of-payments programs, but also included new techniques designed to achieve effective control of direct investment and the overseas expenditures of U.S. tourists.

The main specific elements of the new program were:

- a mandatory program, administered by the Department of Commerce, to restrain direct investment abroad

- revised guidelines by the Board of Governors of the Federal Reserve System to reduce credits from U.S. banks and other financial institutions

- encouragement of foreign travel in the United States and proposed measures to restrain the volume of U.S. travel expenditures outside the Western Hemisphere

- further reductions in the balance-of-payments impact of Government expenditures overseas

- a long-term export expansion program, including intensified promotional efforts and enlarged facilities for export insurance, guarantees, and financing

- consultation with foreign countries to minimize the disadvantages to our trade which arise from differences among our national tax systems

- further efforts to attract greater foreign investment in U.S. corporate securities, carrying out the principles of the Foreign Investors Tax Act of 1966.

Some parts of the program, such as those designed to help rebuild the trade surplus, were longer run measures and did not exert much immediate effect during 1968. The proposal to impose a temporary tax on foreign travel expenditures outside the Western Hemisphere did not receive congressional approval during 1968. But in the areas where it was carried into effect, the January 1968 program was extremely successful.

For three successive quarters, the deficit of the United States moved toward equilibrium. The huge deficit of \$1,742 million (liquidity basis) in the fourth quarter of 1967 was reduced to \$680 million in the first quarter of 1968 as the program got underway, moved downward to \$160 million in the second quarter, and then into a small surplus, on the basis of preliminary figures, in the third quarter.

On the official settlements measure, the deficit had reached the very high level of \$1,082 million in the fourth quarter of 1967. After the new action program, the deficit declined to \$552 million in the first quarter of 1968. Surpluses of \$1,523 million and \$439 million were registered in the second and third quarters.

U.S. gold losses were checked after the first quarter by the separation of the private and official markets. In the first quarter of 1968, U.S. gold losses soared to \$1,362 million. In the second quarter losses were only \$22 million and in the third quarter there was a net gain of \$73 million.

The dramatic improvement in the balance of payments was, of course, extremely welcome. However, the composition of the accounts was somewhat unbalanced with the trade surplus at abnormally low levels. Furthermore, it had to be recognized that there were transitory elements accounting for some of the recorded improvement. There would be a need to guard against any overconfidence and to recall that setbacks had previously been encountered when the balance of payments was showing an improving trend. Clearly, it would be essential to carry through vigorously on the balance-of-payments program until equilibrium had been established on an enduring basis.

### **International Finance**

Events since the time of my last report have demonstrated once again the value of cooperative multilateral action in international financial affairs. Early in the year, the international financial system was still unsettled by heavy speculative activity in gold markets as an aftermath of the sterling devaluation in November 1967. After a period of relative calm following the announcement of the January 1, 1968, U.S. balance-of-payments program, there was a renewed surge of speculation in foreign gold markets.

The representatives of the central banks that were cooperating in the gold pool arrangement met in Washington over the weekend of March 16 and 17, 1968, and developed the plans for what has come to be known as the two-tier gold system. As a result of the agreements reached at this meeting, the drain from monetary gold stocks was halted and the private and official gold markets were effectively separated. The transition at mid-March took place with remarkable smoothness, considering the tense atmosphere that had preceded it, the abrupt change in conditions, and the inevitable doubts and uncertainties about anything new or unknown in the international

monetary field. The new system has worked very well. It has provided additional assurance that the present \$35.00 an ounce price of gold will be maintained in official transactions.

Despite the successful resolution of the gold market problem, the course of international financial developments was far from smooth during the balance of the year. After a brief period of comparative calm, the outbreak of student rioting and labor strikes in late May turned speculative pressure on the French franc. Prompt and coordinated international action was successful in dealing with the speculative pressure and the franc improved gradually during the summer. By late summer, the gold and foreign exchange markets had settled down to orderly trading in a reasonably calm atmosphere.

In early September 1968 the French authorities announced the lifting of the exchange controls that had been imposed in late May. At about the same time, the Bank for International Settlements and a group of 12 central banks announced that they would provide a \$2 billion medium term credit to the United Kingdom to offset reductions in the sterling balances of overseas sterling countries. By mid-October the gold and foreign exchange markets were more settled and orderly than in many months.

In November 1968 a wave of currency speculation developed. Continued large surpluses by West Germany encouraged a belief that the mark might be revalued. This reacted adversely on both the French franc and the pound sterling. The possibility of an unsettling series of exchange rate adjustments was a clear threat to the stability of the international financial system. A meeting of representatives of the Group of Ten nations was held at Bonn, West Germany, between November 20 and 22. The outcome was special border tax and other measures by West Germany instead of a revaluation of the mark. Both the United Kingdom and France took measures of additional budgetary restraint. Despite widespread expectations to the contrary, the French franc was not devalued.

The Bonn meeting represented a further recognition of the principle of cooperative multilateral action in financial affairs affecting major countries and major currencies. The approach to the problem was multilateral and every effort was made to concert rational policies and reach common decisions with financial partners. This was another step away from a narrow, nationalistic view of international finance and toward the multilateral, cooperative approach.

While turbulent events in the gold and foreign exchange markets have claimed much of the attention of the financial world during the past year, the extension of the principle of multilateral cooperation seems sure to be the development of lasting significance. Acting in concert, the major nations had staved off threats to the stability of the international monetary system and proceeded with the plans for an orderly evolution of existing arrangements.



During the year further progress was made in implementing the Special Drawing Rights plan. The ratification of the amendment to the Articles of Agreement of the International Monetary Fund establishing this facility is proceeding satisfactorily, and when, in 1969, this process has been completed and drawing levels determined, the world will have taken the most fundamental progressive step in monetary affairs since Bretton Woods. For the first time in the world's history we shall be looking to the leadership of an international institution to provide conscious direction in recommending the amount of growth in world reserves which the international community needs to facilitate trade and development.

### Summary

Since this is my last Annual Report as Secretary of the Treasury, I will supplement my usual review of recent developments with brief comment on some of the major achievements of recent years in areas of Treasury interest and responsibility. While the future will bring new problems requiring new solutions, there is a continuity in economic and financial events and in established national objectives. Therefore, a review of recent experience may be of some value in pointing to some of the lessons that have been learned and the tasks that remain.

An important lesson of the 1960's is the enormous difference that public policies can make in creating an atmosphere within which the private economy can flourish. From early 1961 to the present, the national growth rate—in terms of real gross national product—has averaged more than 5 percent per annum. This longest economic expansion in our nation's history—nearing the end of its eighth year—has raised our annual total real output as much as in the previous 20 years. The increase in the value of our annual production during the current expansion is roughly equivalent to the total annual output of the European Economic Community or the Soviet Union in a recent year.

Until late 1965, this immense productive achievement featured stable costs per unit of output. Within the last 3 years, costs and prices have risen too rapidly, triggered by the rapid buildup of the war in Southeast Asia after mid-1965. Even so, the United States still has the best overall record of price stability since 1960 of any of the major industrialized nations. But, it is all too clear that our recent price record must be improved. It is a major challenge for future U.S. domestic policy to maintain a healthy rate of growth in production and employment while moving back to a noninflationary environment. The efforts of the incoming Administration in this area deserve, and should receive, full support and cooperation.

Economic growth—even in a noninflationary environment—will certainly not solve all of our domestic problems. But the recent record demonstrates clearly that vigorous economic growth remains the most

powerful social weapon at our disposal. The economic gains of recent years have brought substantial gains to minority groups and given an added degree of dignity and security to millions of Americans. And, in an interdependent world economy, the better U.S. economic performance has also had dramatic effect internationally. The growth of the entire free world has picked up in this decade and the volume of trade has increased impressively.

Experience has proven the value of the use of a range of key policy tools in the pursuit of economic growth and social progress. Suitably adapted to changing circumstances, and supplemented by new techniques, these policy tools can continue to make a distinctive contribution to the promotion of our economic welfare. The major tools which have proven their value can conveniently be summarized under the following headings: structural policies, flexible and coordinated fiscal and monetary policies, cooperation between labor, management, and government, and international policy coordination and cooperation.

Structural policies in the tax area have greatly strengthened investment incentives since the early 1960's and promoted a more rapid rate of growth in productivity. Even with the recently enacted surcharge, Federal income tax rates are much lower than at the beginning of this decade. Tax reform has continued to be a major and continuing objective.

Structural policies outside the tax area also hold great promise. In recent years, the development of intensified public policy and imaginative efforts in private industry in manpower training have mounted a concerted attack on structural unemployment. Sizable investment in these activities and the underlying educative capacity that makes manpower training meaningful, coupled with the investment in tools of production, have become recognized as essential to the successful pursuit of the economies of growth.

Flexible and coordinated fiscal and monetary policies will continue to be major instruments of national economic policy in the years ahead—as they have been in this decade. During recent years it has been shown that fiscal policy can be used to restrain as well as to stimulate. The long delay in the application of fiscal restraint was unfortunate. It may point to the need for some procedures whereby the fiscal position can be adjusted more smoothly and promptly. This is a matter of major importance since an appropriate degree of fiscal stimulus or restraint, combined with a flexible and responsive monetary policy, can help insure that growth in total spending and productive capacity will be kept in reasonable correspondence, thereby avoiding the waste of unemployment and the inequity of inflation. In the absence of a coordinated and stabilizing response from fiscal and monetary policy, we run the risk of returning to the old cycle of expansion and contraction—boom and bust.

In recent years, a remarkable degree of cooperation, understanding, and mutual confidence has gradually emerged between business and labor and Government. Business and labor and Government have moved together in a growing partnership for progress. A key problem remains to be solved: wage-price stability at high levels of employment. Even with sound monetary and fiscal policies, wage-price stability depends upon the determination of American business and American labor to avoid wage rises that outdistance our gains in productivity and to take the national interest into account in pricing decisions. Wage and price stability is vital to both our balance of payments and our domestic progress—business and labor and Government have a joint responsibility to cooperate in its achievement.

In the area of international financial policy coordination and cooperation, great progress has been made in recent years. This progress has been achieved during a period of formidable pressures on the international financial system and on our own balance of payments. Increasingly, the major countries are sharing the responsibility on a multilateral free world scale for an improved trade and payments system, mutual security arrangements that are soundly and fairly financed, and an expanding system of development aid and finance. The landmark agreement on the Special Drawing Rights Plan to provide for orderly growth in world reserves is but one indication of the cooperative approach in international financial affairs.

In all of these areas of domestic and international economic policy, there are common objectives and a growing consensus as to the means of achieving them. While there are differences of opinion and shadings of emphasis, there is also a considerable area of agreement on national economic objectives. We must keep the economy growing and productive, the nation's finances in reasonable balance, and the dollar sound and respected.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

TO THE PRESIDENT OF THE SENATE.

TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

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**REVIEW OF FISCAL OPERATIONS**

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## Financial Operations

### Basis

*Budget receipt and expenditure data in this section are on the basis of the budget concepts adopted pursuant to the recommendations of the President's Commission on Budget Concepts.<sup>1</sup>*

### Summary

On the basis of the new unified budget concepts, the deficit for fiscal 1968 was \$25.2 billion (compared with \$8.8 billion for fiscal 1967, using the same basis). Net receipts for fiscal 1968 amounted to \$153.7 billion (\$4.1 billion over 1967) and outlays totaled \$178.9 billion (\$20.5 billion over 1967).

The deficit of \$25.2 billion and the \$1.3 billion increase in cash and monetary assets were financed by borrowing \$23.1 billion from the public and \$3.4 billion through other means. As of June 30, 1968, Federal securities outstanding totaled \$372 billion, comprised of \$348 billion in public debt securities and \$24 billion in agency securities. Of the \$372 billion, \$291 billion represented borrowing from the public. The Government's fiscal operations in fiscal years 1967-68 are summarized as follows:

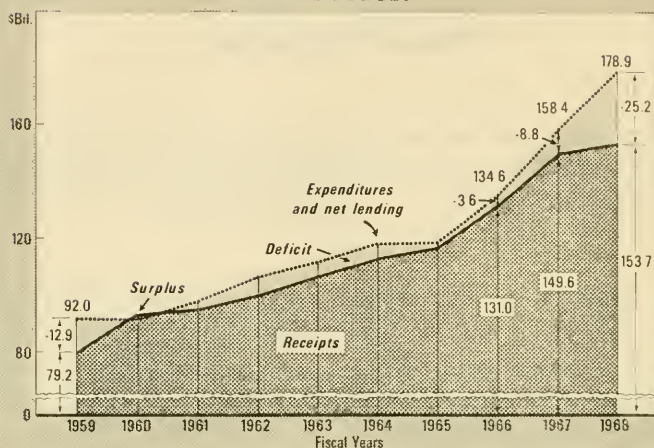
	In billions of dollars	
	1967	1968
Budget receipts, expenditures, and lending:		
Receipt-expenditure account:		
Receipts.....	149.6	153.7
Expenditures.....	153.3	172.8
Receipt-expenditure deficit (-).....	-3.7	-19.1
Loan account:		
Net lending.....	5.1	6.1
Total budget:		
Receipts.....	149.6	153.7
Outlays.....	158.4	178.9
Budget deficit (-).....	-8.8	-25.2
Means of financing:		
Borrowing from the public.....	2.9	23.1
Reduction of cash and monetary assets, increase (-).....	4.9	-1.3
Other means.....	1.0	3.4
Total budget financing.....	8.8	25.2

<sup>1</sup> See pages 8-10 for a discussion of the Commission's recommendations.

## Budget Receipts and Outlays

CHART 2

### THE BUDGET



### Receipts

Budget receipts under the more inclusive concept recommended by the President's Commission on Budget Concepts, amounted to \$153.7 billion in fiscal year 1968, \$4.1 billion above fiscal 1967. New peaks of budget revenue have thus been established in each of the last 9 years. The 1968 increase occurred despite the virtual end (in fiscal year 1967) of the acceleration of corporate payments under the Revenue Acts of 1964 and 1966. On the other hand, fiscal 1968 receipts were bolstered by the full-year effect of rate increases for employment taxes.

In summary, Government revenues continued to rise during fiscal 1968, accompanying the general expansion in economic activity. A comparison of net budget receipts by major sources for the fiscal years 1967 and 1968 is shown below. Estimates of receipts required of the Secretary of the Treasury are shown separately in the President's budget.

[In millions of dollars]

	1967	1968	Increase, or decrease (-)
Individual income taxes.....	61,526	68,726	7,200
Corporation income taxes.....	33,971	28,665	-5,307
Employment taxes.....	27,823	29,224	1,401
Unemployment insurance.....	3,659	3,346	-314
Contributions for other insurance and retirement.....	1,865	2,051	185
Excise taxes.....	13,719	14,079	360
Estate and gift taxes.....	2,978	3,051	72
Customs.....	1,901	2,038	138
Miscellaneous receipts.....	2,120	2,498	378
Total budget receipts.....	149,562	153,676	4,113

*Individual income taxes.*—Individual income taxes amounted to \$68.7 billion in fiscal 1968, up \$7.2 billion from 1967. The percentage rise of 12 percent was about the same as in 1967 and reflected generally rising incomes.

*Corporation income taxes.*—Corporation income receipts fell off sharply during fiscal 1968, amounting to \$28.7 billion, down \$5.3 billion from 1967. The major part of this drop was due to the end of the acceleration of payments in fiscal 1967. (The acceleration of payments added to receipts during the fiscal years 1964 through 1967 but did not affect tax liabilities.)

Also contributing to the drop in receipts was a \$4.0 billion decrease in corporate profits from calendar year 1966 to 1967. These are the calendar year results which most affect the fiscal year 1967 to 1968 comparison of receipts.

*Employment taxes.*—Employment taxes totaled \$29.2 billion in fiscal 1968, up \$1.4 billion from 1967. The rise reflected expanding payrolls and number of people employed, as well as an increase in the combined tax rate on employers and employees. The combined tax rate was increased from 8.4 percent to 8.8 percent effective January 1, 1967. The higher rate was wholly reflected in fiscal 1968 but only partially in 1967.

*Unemployment insurance.*—Unemployment insurance receipts fell off some \$300 million in fiscal 1968, amounting to \$3.3 billion. The drop was almost wholly due to smaller deposits by States in the unemployment trust fund.

*Contributions for other insurance and retirement.*—At \$2.1 billion in fiscal 1968, such premiums were some \$185 million above 1967. These premiums are composed of medical insurance for the aged and Federal employee retirement deductions, each increasing in fiscal 1968.

*Excises.*—Excise tax receipts are detailed in the following table.

[In millions of dollars]

	1967	1968	Increase, or decrease (—)
Alcohol taxes.....	4, 076	4, 287	212
Tobacco taxes.....	2, 080	2, 122	42
Documents.....	68	49	—20
Manufacturers excise taxes.....	5, 478	5, 714	236
Retailers excise taxes (repealed).....	4	1	—3
Miscellaneous excise taxes.....	1, 732	1, 859	127
Undistributed depository receipts and unapplied collections.....	676	288	—387
Gross excise taxes.....	14, 114	14, 320	207
Less refund of receipts.....	395	241	—153
Net excise taxes.....	13, 719	14, 079	360

Excise taxes rose from \$13.7 billion in fiscal 1967 to \$14.1 billion in 1968, an increase of some \$360 million. Over \$250 million of this rise was in the alcohol and tobacco taxes.

*Estate and gift taxes.*—Estate and gift taxes reached \$3.1 billion in fiscal 1968, only slightly above 1967.

*Customs.*—Customs duties continued to advance in fiscal 1968, amounting to \$2.0 billion, \$138 million greater than in 1967. The rise reflected a further increase in taxable imports.

*Miscellaneous receipts.*—Miscellaneous receipts amounted to \$2.5 billion in 1968, increasing some \$380 million. With the changes in budget concepts reflected in this section, miscellaneous receipts are largely the deposits of earnings by Federal Reserve banks. These increased \$286 million.

### Outlays

Total outlays in fiscal 1968 were \$178.9 billion (compared with \$158.4 billion for 1967). The outlays consisted of expenditures in the receipt-expenditure account of \$172.8 billion and net lending in the loan account of \$6.1 billion. Outlays for fiscal 1968, by major agency, are compared to those of 1967 in the following table. For details of the receipt-expenditure account and the loan account see the Statistical Appendix.

[In millions of dollars]

Agency	1967	1968	Increase, or decrease (—)
Funds appropriated to the President.....	4,872	4,913	41
Agriculture Department.....	5,841	7,308	1,467
Defense Department.....	68,763	78,673	9,910
Health, Education, and Welfare Department.....	34,608	40,576	5,969
Housing and Urban Development Department.....	2,783	4,140	1,357
Labor Department.....	3,286	3,272	—14
Transportation Department.....	5,428	5,732	304
Treasury Department.....	13,059	14,655	1,595
Atomic Energy Commission.....	2,264	2,466	202
National Aeronautics and Space Administration.....	5,423	4,721	—703
Veterans' Administration.....	6,845	6,858	14
Other.....	9,189	10,119	930
Undistributed interfund receipt transactions.....	—4,009	—4,570	—561
Total outlays.....	158,352	178,862	20,511

### Cash and Monetary Assets

On June 30, 1968, cash and monetary assets directly related to the budget amounted to \$11,287 million, an increase of \$1,303 million over fiscal 1967. The balance consisted of \$6,785 million in the general account of the Treasurer of the United States, which included \$91 million net transactions in transit as of June 30 (this balance was \$1,094 million less than June 30, 1967); \$3,536 million with other Government officers (\$1,858 million more than 1967); and \$966 million with the International Monetary Fund (\$538 million more than 1967). For a discussion of the assets and liabilities of the Treasurer's account see pages 98–100. The transactions affecting the account in fiscal 1968 follow:



*Transactions affecting the account of the Treasurer of the United States, fiscal 1968*

[In millions of dollars]

Balance June 30, 1967-----		7, 759
Excess of deposits, or withdrawals (—), budget, trust, and other accounts:		
Deposits -----	165, 086	
Withdrawals (—) -----	184, 581	—19, 495
Excess of deposits, or withdrawals (—), public debt accounts:		
Increase in gross public debt-----	21, 357	
Deduct:		
Excess of Government agencies' investments in public debt issues-----	4, 307	
Accruals on savings and retirement plan bonds and Treasury bills (included in increase in gross public debt above)-----	5, 319	
Less certain public debt redemptions (included above in withdrawals, budget, trust, and other accounts)-----	5, 315	
Net deductions-----	4, 311	17, 046
Excess of sales of Government agencies' securities in the market----		3, 480
Net transactions in clearing accounts (documents not received or classified by the Office of the Treasurer)-----		—2, 095
Net transactions in transit-----		91
Balance June 30, 1968-----		6, 785

### Corporations and Other Business-type Activities of the U.S. Government

The business-type programs which Government corporations and agencies administer are financed by various means: Appropriations, sales of capital stock, borrowings from either the U.S. Treasury or the public, or by revenues derived from their own operations.

Corporations or agencies having legislative authority to borrow from the Treasury issue their formal securities to the Secretary of the Treasury. Amounts borrowed are reported in the periodic financial statements of the Government corporations and agencies as part of the Government's net investment in the enterprise. In fiscal 1968, borrowings from the Treasury, exclusive of refinancing transactions, totaled \$12,608 million, repayments were \$10,179 million, and outstanding loans on June 30, 1968, totaled \$27,040 million.

Those agencies having legislative authority to borrow from the public must either consult with the Secretary of the Treasury regarding the proposed offering, or have the terms of the securities to be offered approved by the Secretary.

During fiscal 1968, Congress granted new authority to borrow from the Treasury in the total amount of \$1,587 million, and reduced existing authority by \$791 million, resulting in a net increase of \$868 mil-

lion. The status of borrowing authority and the amount of corporation and agency securities outstanding as of June 30, 1968, are shown in the Statistical Appendix.

Unless otherwise specifically fixed by law, the Treasury determines interest rates on its loans to agencies by considering the Government's cost for its borrowings in the current market, as reflected by prevailing market yields on Government securities which have maturities comparable with the Treasury loans to the agencies. A description of the Federal agencies' securities held by the Treasury on June 30, 1968, is shown in the Statistical Appendix.

During fiscal 1968, the Treasury received from agencies a total of \$888 million in interest, dividends, and similar payments. (See the Statistical Appendix.)

Quarterly statements of financial condition, income and expense, and source and application of funds are submitted to the Treasury by Government corporations and agencies. These statements serve as the basis for the combined financial statements compiled by the Treasury which, together with the individual statements, are published periodically in the "Treasury Bulletin." Summary statements of the financial condition of Government corporations and other business-type activities, as of June 30, 1968, are shown in the Statistical Appendix.

## Government-wide Financial Management

### New budget concepts

On March 3, 1967, President Johnson appointed a Commission "to make a thorough study of the Federal budget and the manner in which it is presented to the Congress and the public." The decision to form a Commission on Budget Concepts climaxed many years, under several Administrations, of discussion and criticism about the inadequacy of the Federal budget. Confusion and criticism grew primarily because of the use of three major "budget" concepts (administrative, consolidated cash, and national income accounts) and the accounting treatment of individual items or groups of items within the three concepts.

The Secretary served as a member of the Commission, which carried on its deliberations throughout the summer and submitted its report to the President in October 1967. Among the major recommendations made by the Commission were:

- (1) That a unified budget statement, with complementary rather than competing concepts, be adopted to replace the three or more existing concepts;
- (2) That the budget have broad coverage to include all programs of the Federal Government, including trust funds;



(3) That a breakdown of total Government outlays between loans and other expenditures be made within the unified budget.

(4) That receipts which are enterprise or market-oriented be netted i.e., treated as offsets to expenditures to which they relate;

(5) That the budget include a "means of financing" statement utilizing a debt concept which emphasizes net Federal borrowing from the public;

(6) That the sale of participation certificates in pools of loans be treated as a means of financing (borrowing) rather than as budget receipts;

(7) That receipts and expenditures be reported on the accrual basis instead of a cash basis; and

(8) That subsidies involved in Federal direct loan programs be separately identified in the expenditure account.

All of these recommendations except the last two were implemented in the 1969 budget presented to the Congress in January 1968 and in the Treasury's financial reports for fiscal 1968. As suggested by the Commission, the Bureau of Accounts, collaborating with Bureau of the Budget and General Accounting Office staff, conducted a review of all deposit fund accounts in order to classify the accounts within or outside the new unified budget.

A steering committee representing the Bureau of the Budget, the General Accounting Office, and the Treasury is guiding joint efforts toward implementation of the last two recommendations, Government-wide, through a number of specialized task groups:

#### ACCRUED EXPENDITURES AND NONTAX RECEIPTS

The Commission recommended that the conversion to the accrual basis take place with the 1971 budget to be preceded by a test period beginning July 1968. As a first step, meetings were held in February and March 1968 to discuss the requirements with top-level agency financial personnel, identify potential problems, and determine agency capability to implement the Commission's recommendation on schedule.

After meeting with all major agencies, the Steering Committee focused on drafting necessary regulations to guide agencies in preparing for the test and subsequent conversion of the Budget and Treasury reports from the cash to the accrual basis. Bureau of Accounts staff participated in a coordinated effort to define the new requirements, the outgrowth of which was Bureau of the Budget Bulletin No. 68-10, dated April 26, 1968, the Comptroller General's letter to agencies dated May 4, 1968, and Transmittal Letter No. 18 to the Treasury Fiscal Requirements Manual, dated June 20, 1968. The latter

set forth preliminary requirements for reporting accrual data to the Treasury during the test period (fiscal year 1969).

Two major problem areas were identified in discussion with agencies, namely (1) the reporting of unbilled cost on Federal contracts under the constructive delivery concept recommended by the Commission and (2) the reporting of accrual data by grantees under Federal grant programs. The Steering Committee appointed separate task force groups, with Treasury representation, to study each area in depth. These studies will be completed early in fiscal 1969.

#### ACCRUAL OF CORPORATE INCOME TAXES AND EXCISE TAXES

The Commission recommended that all budget receipts be reported on the accrual basis as soon as feasible and specified corporation income taxes and excise taxes as categories which should be converted to the accrual basis promptly. The Steering Committee established a study team consisting of representatives from the Treasury Department (Office of Tax Analysis (Chairman), Internal Revenue Service, and Bureau of Accounts), Bureau of the Budget, General Accounting Office, and Department of Commerce.

#### IDENTIFICATION OF INTEREST SUBSIDIES

It was the Commission's recommendation that the full amount of the interest subsidy on loans, as compared to Treasury borrowing costs, be determined and specifically disclosed in the expenditure account of the budget, and furthermore, that it be measured on a capitalized basis at the time the loans are made. In May, all major lending agencies were invited to offer suggestions on the most practical method of implementing this recommendation. Further efforts will continue in fiscal 1969.

#### Joint Financial Management Improvement Program

On April 29, 1968, the Secretary met with the Comptroller General, the Director of the Bureau of the Budget, and the Chairman of the Civil Service Commission to review progress under the Joint Financial Management Improvement Program (JFMIP). In addition to topics involving key recommendations of the President's Commission on Budget Concepts, a joint project was approved to conduct a broad review of Federal grant-in-aid programs with the objective of simplifying their financial administration. Progress on projects studying letter-of-credit operations and payment for transportation services was reviewed.

The Treasury Department is chairing the JFMIP project established to evaluate the application, administration, and operation of the

letter-of-credit method of financing Federal programs. It is expected that recommendations will be made early in fiscal year 1969 concerning (a) further application of the system, (b) program agency monitoring of the system, (c) problems in State, municipal, or other local laws which may impede optimum use of the system, (d) methods to reduce the amount of cash in the hands of secondary recipients, and (e) other improvements which would result in keeping cash in Treasury until actually needed.

#### **Use of letters of credit**

The use of letters of credit to finance appropriate Federal programs has continued to expand. During fiscal year 1968, it was applied to additional programs in the Department of Health, Education, and Welfare, the Federal Extension Service of the Department of Agriculture, and the Department of Housing and Urban Development. This brought the number of participating entities to 26. Over 60,000 draw-downs, totaling \$18.3 billion, were generated in fiscal 1968.

#### **Federal Tax Deposit System**

The Federal Tax Deposit System which was initiated in fiscal 1967 for corporation income taxes was extended in 1968, as planned, to all other classes of taxes formerly handled through the "depository receipts" system. The new system will produce substantial operating economies.

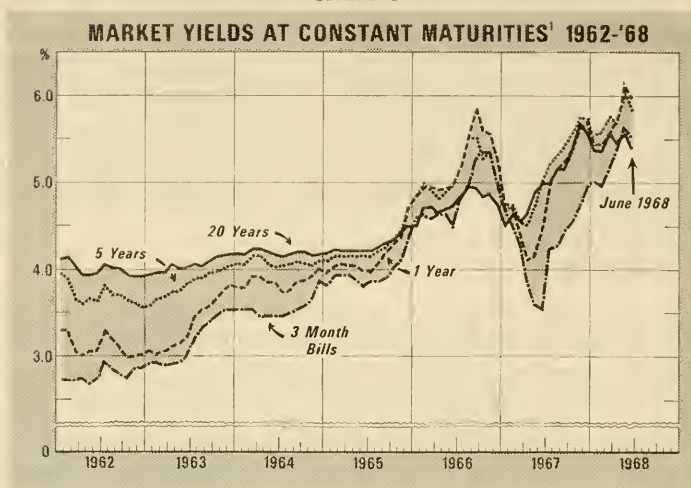
### **Federal Debt Management**

The primary function of Federal debt management is to raise the funds needed to meet expenditures not covered by revenues and to refund maturing debt obligations. This primary function must be carried out in a manner that contributes to noninflationary growth in the domestic economy and achievement of balance in our international accounts. Secondary objectives are establishing and maintaining a well-balanced debt structure, providing debt instruments commensurate with the needs and requirements of an orderly securities market, coordinating the growing volume of Government agency debt operations with Treasury debt management policy, and minimizing the interest cost of Treasury and Federal agency borrowing.

Debt management policy faced a complex task in fiscal 1968. The major problem was the very size of the combined refundings and new cash needs. By normal standards the volume of maturing Treasury and agency issues was moderate. However, the financing of the \$25.2 billion budget deficit would add a heavy Federal demand to large private and State and local government credit demands. Moreover, the protracted uncertainty over the fate of the fiscal program pending before Congress made forward planning unusually difficult.



CHART 3



<sup>1</sup> Monthly averages of daily estimated yields of public debt securities. Bank discount rates on Treasury bills.

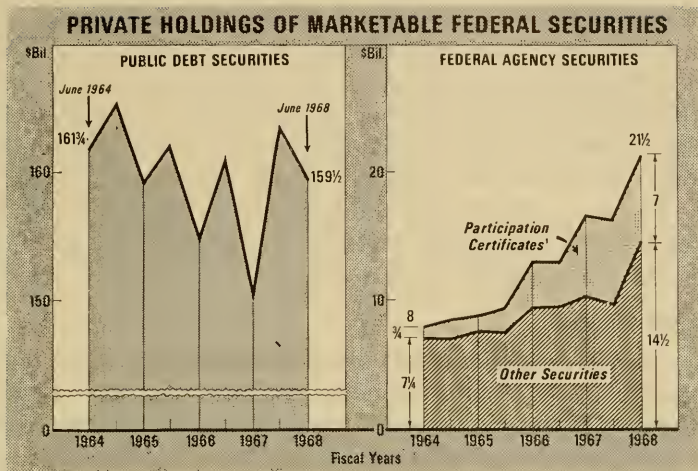
To finance the large Federal demands for credit, Treasury debt management policymakers relied in good part on Treasury bills and short term notes. Nevertheless, the Treasury was able to minimize the erosion of the debt structure by combining intermediate exchange issues with short term cash offerings. This allowed the placing of a moderate amount of debt in the 7-year area in three of the four quarterly financings.

In the domestic economy the first half of the fiscal year saw a quickened rate of real growth accompanied by an excessively rapid rise in costs and prices. At the same time the capital market was subjected to the ebb and flow of expectations for peace in Vietnam. The President formally requested a tax increase in August, but the Congress did not act until the end of the fiscal year. In the interim there were several occasions on which approval seemed near followed by frustrating delays. Consequently economic restraint depended heavily on monetary policy during the fiscal year.

The discount rate was raised by one-half of a percent on November 20, 1967, and again on March 15, 1968, and on April 19, 1968, increasing the rate during the year to  $5\frac{1}{2}$  percent. In January the Federal Reserve increased reserve requirements on commercial bank deposits and in April raised the maximum rates payable on certificates of deposit to  $6\frac{1}{4}$  percent on the longest maturities.

A series of international problems arose during the fiscal year. In mid-November 1967 the British pound came under severe pressure and was devalued from \$2.80 to \$2.40. In the final quarter of 1967, the U.S. balance of payments deteriorated sharply, and in his New Year's

CHART 4

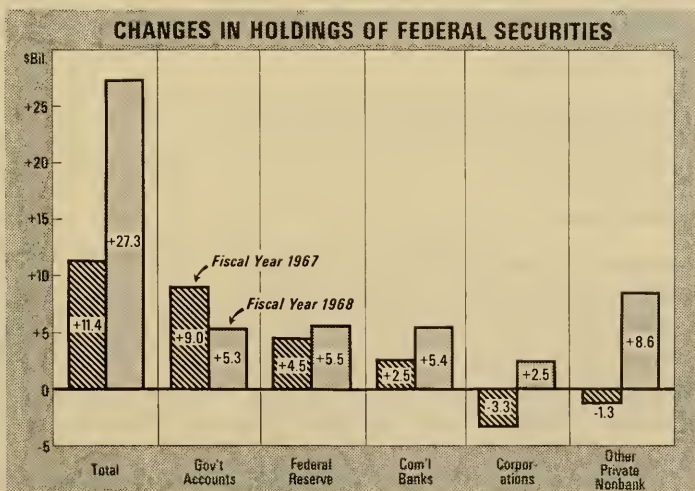


<sup>1</sup> Export-Import and FNMA participation certificates.

Day message the President announced a broad program to bring our payments into or close to equilibrium. Sharp increases in gold sales in late 1967 and the renewed speculative pressure on the British pound and gold at the end of February 1968 led to the establishment of the two-price gold system in mid-March.

Market rates on Treasury securities rose steadily through December 1967 with the 3-month bill showing an increase of 1 percent over June levels while yields on intermediate term securities rose one-half to three-quarters of a percent. On December 30, 1967, 3-month bills were

CHART 5





at the 5-percent level and intermediate coupon issues were about  $5\frac{3}{4}$  percent.

During January and early February interest rates on Government securities dropped back moderately, then rose through the third week in May before the market became convinced that the Congress would enact a tax increase. In this period the short bill rate rose an additional percentage point and intermediate coupon rates rose one-half of 1 percent. The tax action sharply reduced rates in the last month of the fiscal year, with 3-month bills yielding 5.30 percent and intermediate coupon issues yielding  $5\frac{3}{4}$  percent at the end of the fiscal year.

### Public Debt Changes

Treasury debt securities outstanding increased \$21.4 billion in fiscal 1968 to a level of \$347.6 billion on June 30, 1968. Over the course of the fiscal year the Treasury issued \$50.3 billion of new marketable securities excluding \$11.0 billion of tax anticipation bills which were both issued and redeemed during the fiscal year. Redemptions, also excluding tax bills, totaled \$34.4 billion.

Class of debt	June 30, 1967	June 30, 1968	Increase, or decrease (-)
In billions of dollars			
Public debt securities:			
Marketable public issues by maturity class:			
Within 1 year.....	89.6	106.4	16.8
1-5 years.....	71.4	64.5	-7.0
5-20 years.....	32.8	39.2	6.4
Over 20 years.....	16.8	16.6	-0.2
Total marketable issues.....	210.7	226.6	15.9
Nonmarketable public issues:			
Savings bonds:			
Series E and H.....	50.8	51.6	0.8
Other series.....	0.4	0.1	-0.3
U.S. savings notes.....	(*)	0.2	0.2
Investment series bonds.....	2.6	2.5	-0.1
Foreign series securities.....	0.6	2.0	1.4
Foreign currency securities.....	0.9	1.7	0.8
Other nonmarketable debt.....	0.1	0.1	(*)
Total nonmarketable public issues.....	55.5	58.3	2.8
Special issues to Government investment accounts (nonmarketable).....	56.2	59.5	3.4
Noninterest-bearing debt.....	3.9	3.2	-0.8
Total gross public debt.....	326.2	347.6	21.4

\*Less than \$50 million.

The outstanding marketable public debt increased \$15.9 billion. The total maturing within 1 year rose \$16.8 billion, 1 year-5 year maturities decreased \$7.0 billion, and debt maturing beyond 5 years increased by \$6.1 billion. The increase in debt maturing beyond 5 years reflected the offerings of 7 year maturities in three of the four quarterly Treasury financings. Despite these offerings, however, the average length of the public marketable debt declined 5 months to 4 years 2 months.

Nonmarketable Treasury debt outstanding increased \$6.2 billion.

Special nonmarketable securities issued to official foreign agencies increased \$2.2 billion and special securities issued to Government accounts rose \$3.4 billion. Outstanding Series E and H savings bonds and U.S. savings notes increased \$1.0 billion; cash sales and the interest accrual on outstanding Series E bonds and U.S. savings notes amounted to \$6.7 billion and redemptions totaled \$5.7 billion. Redemptions of other savings bonds, investment series bonds, and other nonmarketable debt amounted to \$0.4 billion.

Matured debt and debt bearing no interest declined \$0.8 billion.

Federal agency issues outstanding reached \$24.4 billion in fiscal 1968, an increase of \$6.0 billion. More than four-fifths of the increase was in issues by the Federal National Mortgage Association—\$3.1 billion from participation certificates sales and \$1.8 billion from secondary market operations. Banks for cooperatives issues rose \$0.2 billion and Federal intermediate credit bank issues increased \$0.4 billion. Securities issued by the Export-Import Bank increased \$0.4 billion; Tennessee Valley Authority \$0.1 billion; Federal Housing Administration \$0.1 billion. All other agency issues on balance declined \$0.1 billion.

#### FINANCING OPERATIONS

The Treasury's operating cash balance at the end of fiscal 1967 was \$5.7 billion, the lowest yearend level since fiscal year 1959. On June 28, 1967, however, the Treasury had announced an auction of \$4 billion of tax anticipation bills (\$2 billion maturing March 22, 1968, and \$2 billion maturing April 22, 1968) for July 5 with payment on July 11, 1967. The Treasury also had announced that it would also raise \$1.3 billion through adding \$100 million each week to the offerings of 3-month bills beginning July 13 and an additional \$900 million by adding \$100 million each month to the annual bills beginning September 30, 1967.

Prior to this announcement, the 3-month rate had reached a fiscal 1967 low of 3.33 percent in the third week of June. However, a heavy tone developed in the bill market and by July 5, the 3-month bill rate had climbed to 4.29 percent. Although full tax and loan credit was allowed, the average issuing rates on the March and April tax bills were 4.86 percent and 4.90 percent, respectively.

Sentiment in the coupon sector of the Government securities market was apprehensive in early July, but by mid-month a steadier tone developed, reflecting primarily favorable market reaction to discussions of an early tax increase. A cautious atmosphere reappeared briefly after mid-month as participants awaited terms of the Treasury's August quarterly refunding, revised budget figures for fiscal 1968, and clarification of the tax situation.

To refund the August maturities the Treasury offered a 15-month  $5\frac{1}{4}$  percent note priced at 99.94 to yield 5.30 percent for cash. The maturing issues were \$5.6 billion  $5\frac{1}{4}$  percent certificate of indebtedness, \$2.1 billion  $3\frac{3}{4}$  percent note, and \$1.9 billion  $4\frac{7}{8}$  percent note. Of the \$9.6 billion total, \$3.5 billion was held by private investors. Allotments of the new note to private investors totaled \$3.8 billion, resulting in net new cash of \$0.3 billion.

In September, market participants began to assume that even with passage of the Administration's tax proposals, Treasury's near term financing needs would be greater than had been expected. Prices of Government coupon securities generally drifted lower and bill rates, which had been steady at the beginning of the month, began to climb under expectations that a sizable portion of the financing needs would probably be met through issuance of additional bills.

On September 22 the Treasury announced its second offering of tax anticipation securities for the fiscal year in an amount of \$4.5 billion and indicated that it planned to continue to add \$100 million weekly to the 3-month bills for another full cycle of 13 weeks.

Of the \$4.5 billion tax bills, \$1.5 billion represented an additional offering of the April 22, 1968, maturity; the remaining \$3 billion was to mature on June 24, 1968. Average rates in the October 3 auction were 4.93 percent on the April maturity and 5.11 percent on the June maturity. Commercial banks were allowed to pay for 75 percent of their allotments through credit to tax and loan accounts.

The upward trend of capital market yields continued during October. This reflected market disappointment over the postponement of action on the President's surtax proposal, and over the outlook for a settlement in the Vietnam conflict, as well as pressure of continuing large amounts of new corporate issues entering the market. At the close of the month market yields of outstanding Treasury securities were about  $5\frac{5}{8}$  percent in the intermediate maturity area.

The terms of the November quarterly financing were announced on October 25. The Treasury offered \$12.2 billion of new notes to refund the maturing \$10.2 billion of  $4\frac{7}{8}$  percent notes and  $3\frac{5}{8}$  percent bonds and to raise about \$2 billion of new cash. The offered issues were \$10.7 billion of a 15-month,  $5\frac{5}{8}$  percent note to mature in February 1969 and \$1.5 billion of a  $5\frac{3}{4}$  percent, 7-year note to mature in November 1974. This was the first use of the 7-year note authority granted by Congress in June 1967. A heavy oversubscription allowed the Treasury to overallot and raise \$2.2 billion of new cash by issuing \$1.7 billion rather than \$1.5 billion of the 7-year  $5\frac{3}{4}$  percent notes. Including the increase in regular Treasury bills this brought the total of new cash raised in the market since the begin-



ning of the fiscal year to \$16.3 billion and completed the Treasury's financing operations for the July-December half.

On November 18, immediately after the settlement day of the Treasury financing, the British Government devalued the pound from \$2.80 to \$2.40, and increased the Bank of England discount rate from 6½ percent to 8 percent. In the wake of the British action the Federal Reserve Board announced a discount rate increase from 4 percent to 4½ percent. After an initial reaction, the Government market stabilized and, apart from a temporary reaction to the early December announcement that Congress would delay action on the tax proposal, remained fairly steady until the close of the calendar year.

On January 1, President Johnson announced a program to improve our international balance of payments. This announcement, following on the heels of the Board of Governors' action in late December to increase member bank reserve requirements by one-half of a percent, had a beneficial effect on the capital market.

On January 3, the Treasury announced an offering of an additional \$2½ billion in tax anticipation bills to mature on June 24, 1968. Commercial banks were again permitted to pay for the bills by full credit to tax and loan accounts. The auction was considered strong and the average issuing rate was 5.06 percent. For the remainder of the month of January prices of intermediate and long term securities continued to gain and a generally strong investment demand persisted.

On January 31, the Treasury announced the offering of a long term note to refund the February maturities, and prerefund a sizable segment of the August and November 1968 maturities. This was combined with a cash offering of a short term note to cover attrition and raise additional new cash.

Holders of 5½ percent notes due February 15, 4¼ percent notes and 3¾ percent bonds due August 15, and 5¼ percent notes and 3⅞ percent bonds due November 15 were permitted to exchange their holdings for a new 5¾ percent 7-year note to be dated February 15, 1968, and maturing on February 15, 1975. Of the \$24.3 billion of these securities outstanding, approximately \$12.1 billion was held by private investors. Subscription books for the exchange were open February 5-7. The Treasury also announced that it would offer about \$4 billion of 15-month notes for cash on February 13.

About \$1.3 billion of the \$1.7 billion of privately-held February maturities and \$2.6 billion of the \$10.3 billion privately-held prerefunded maturities were exchanged. The total of the new 5¾ percent notes issued, including exchanges by the Federal Reserve and Govern-

ment accounts, was \$5.1 billion. Terms of the short note were announced on February 8, 1968. The coupon was  $5\frac{5}{8}$  percent and payment through credit to tax and loan accounts by commercial banks was allowed. An allotment ratio of 39 percent on subscriptions in excess of \$200,000 resulted in a total issue of \$4.3 billion which covered the attrition in the exchange offering and raised an additional \$3.8 billion of new cash.

On February 20 the Treasury announced that the weekly offerings of 3-month bills would be enlarged by \$100 million commencing on February 26 and probably running for a full 13-week cycle ending with the auction of May 20.

Developments in domestic financial markets during March were largely dominated by foreign exchange and gold market developments. Speculative pressures on the pound and Canadian dollar, beginning in late February, spread to the U.S. dollar. As a consequence, the structure of interest rates shifted moderately upward in March. Pressures on the financial markets increased steadily over the month and between March 15 and March 22 the discount rates of all 12 Federal Reserve banks were increased from  $4\frac{1}{2}$  percent to 5 percent.

In April the Treasury returned to the bill market and announced a weekly increase of \$100 million in the 6-month bill cycle beginning with the auction of April 15 and continuing through the end of the fiscal year for total new money of \$1.1 billion.

On April 15 the Board of Governors of the Federal Reserve System approved a discount rate increase from 5 percent to  $5\frac{1}{2}$  percent and liberalized the schedule of maximum interest rates payable on large denomination certificates of deposit. Prices in the Government coupon market were marked down sharply creating the highest rate structure in the short and intermediate market since the fall of 1966.

The May financing again combined an exchange and a cash operation, using a 6 percent, 7-year note maturing in May 1975 for the long exchange option and a 6 percent, 15-month note maturing August 1969 for the cash anchor issue. Unlike the February financing, the terms of the two new issues were announced concurrently.

The 7-year note was offered to holders of \$8.0 billion of  $4\frac{3}{4}$  percent Treasury notes and  $3\frac{7}{8}$  percent bonds maturing on May 15. Private investors held \$3.9 billion of the eligible issues. The cash offering of the 6 percent 15-month note was \$3.0 billion to cover attrition and raise additional new money. Commercial banks were allowed to credit tax and loan accounts in payment.

Attrition on the privately-held portions of the maturing issues was only \$1.3 billion, and the cash subscription on the short issue was sufficient to allow the Treasury to issue \$3.4 billion with a 28 percent



allotment on those subscriptions above \$100,000. This resulted in net new cash of about \$2.1 billion.

The two accompanying tables summarize the Treasury's major financing operations during the fiscal year. Data on allotments by investor classes will be found in the Statistical Appendix.

*Offerings of marketable Treasury securities excluding refunding of regular bills, fiscal year 1968*

[In millions of dollars]

Issue date	Description	Cash offerings		Exchange offerings		Total
		For new money	For refunding	For maturing issues	In advance refunding	
NOTES						
1967						
Apr. 1	1½% exchange note-Apr. 1, 1972 <sup>1</sup>			<sup>2</sup> 26		26
Aug. 15	5¼% note-Nov. 15, 1968 at 99.04 <sup>3</sup>	305	9,608			9,913
Aug. 30	5½% note-Feb. 15, 1971	2,509				2,509
Oct. 1	1½% exchange note-Oct. 1, 1972 <sup>1</sup>			33		33
Nov. 15	5½% note-Feb. 15, 1969 <sup>3</sup>	2,236	10,154	{		10,738
Nov. 15	5¾% note-Nov. 15, 1974 <sup>3</sup>					1,652
1968						
Feb. 15	5¾% note-Feb. 15, 1975 <sup>4</sup>			2,171	2,977	5,148
Feb. 21	5½% note-May 15, 1969 <sup>4</sup>	3,813	464			4,277
Apr. 1	1½% exchange note-Apr. 1, 1973 <sup>1</sup>			13		13
May 15	6% note-Aug. 15, 1969 <sup>4</sup>	2,069	1,297			3,366
May 15	6% note-May 15, 1975 <sup>4</sup>			6,750		6,750
	Total notes	10,932	21,523	8,993	2,977	44,425
BILLS <sup>5</sup> (MATURITY VALUE)						
	Increase in 3-month bill offerings:					
1967	July through September	1,201				1,201
	October through December	1,315				1,315
1968	January through March	598				598
	April through June	802				802
	Total 3-month bill increase	3,916				3,916
	Increase in 6-month bill offerings:					
1968	April through June	1,079				1,079
	Increase in 1-year bill offerings:					
1967	July through September	100				100
	October through December	197				197
1968	January through March	399				399
	April through June	201				201
	Total 1-year bill increase	897				897
	Tax anticipation bill offerings:					
1967						
July 11	4.861% 255-day, maturing Mar. 22, 1968	2,003				2,003
July 11	4.898% 286-day, maturing Apr. 22, 1968	2,001				2,001
Oct. 9	4.934% 196-day, maturing Apr. 22, 1968, additional	1,506				1,506
Oct. 9	5.108% 259-day, maturing June 24, 1968	3,006				3,006
1968						
Jan. 15	5.058% 161-day, maturing June 24, 1968, additional	2,528				2,528
	Total tax anticipation offerings	11,044				11,044
	Total offerings	27,868	21,523	8,993	2,977	61,361

<sup>1</sup> Issued only on demand in exchange for 2¾ percent Treasury bonds, Investment Series B-1975-80.

<sup>2</sup> Issued subsequent to June 30, 1967.

<sup>3</sup> A cash offering (all subscriptions subject to allotment) was made for the purpose of paying off the matured securities in cash and to raise new money. Holders of the maturing issues were not offered preemptive rights to exchange their holdings, but were permitted to present them in payment or exchange, in lieu of cash, for the new securities offered. For further details, see exhibit 1.

<sup>4</sup> In the February and May 1968 financings combinations of cash and exchange offerings were made to refund maturing issues and raise new cash.

<sup>5</sup> Treasury bills are sold on a discount basis with competitive bids for each issue. The average price for auctioned issues gives an approximate yield on a bank discount basis as indicated for each series.

*Disposition of marketable Treasury securities excluding regular bills, fiscal year 1968*

[In millions of dollars]

Date of refunding or retirement	Securities		Re-deemed for cash or carried to matured debt	Exchanged for new issue		Total
	Description and maturity date	Issue date		At maturity	In advance refunding	
BONDS, NOTES, AND CERTIFICATES						
1967						
Aug. 15	5¼% certificate-Aug. 15, 1967	Aug. 15, 1966	989	1 4, 621		5, 610
Aug. 15	3¾% note-Aug. 15, 1967	Sept. 15, 1962	1, 674	1 420		2, 094
Aug. 15	4¾% note-Aug. 15, 1967	Feb. 15, 1966	582	1 1, 322		1, 904
Oct. 1	1½% exchange note-Oct. 1, 1967	Oct. 1, 1962	457			457
Nov. 15	4¾% note-Nov. 15, 1967	May 15, 1966	1, 101	1 7, 034		8, 135
Nov. 15	3¾% bond-Nov. 15, 1967	Mar. 15, 1961	1, 326	1 692		2, 019
1968						
Feb. 15	5½% note-Feb. 15, 1968	Nov. 15, 1966	464	2, 171		2, 635
Feb. 15	4¼% note-Aug. 15, 1968	May 15, 1967			507	507
Feb. 15	3¾% bond-Aug. 15, 1968	Apr. 18, 1962			1, 107	1, 107
Feb. 15	5¼% note-Nov. 15, 1968	Aug. 15, 1967			929	929
Feb. 15	3¾% bond-Nov. 15, 1968	Sept. 15, 1963			433	433
Apr. 1	1½% exchange note-Apr. 1, 1968	Apr. 1, 1963	212			212
May 15	4¾% note-May 15, 1968	Feb. 15, 1967	540	5, 047		5, 587
May 15	3¾% bond-May 15, 1968	June 23, 1960	761	1, 699		2, 460
Total coupon securities			8, 106	23, 006	2, 976	34, 089
BILLS						
1968						
Mar. 22	4.861% (tax anticipation)	July 11, 1967	2 2, 003			2, 003
Apr. 22	4.898% (tax anticipation)	July 11, 1967	2 2, 001			2, 001
Apr. 22	4.934% (tax anticipation)	Oct. 9, 1967	2 1, 506			1, 506
June 24	5.108% (tax anticipation)	Oct. 9, 1967	2 3, 006			3, 006
June 24	5.058% (tax anticipation)	Jan. 15, 1968	2 2, 528			2, 528
Total bills			11, 044			11, 044
Total securities			19, 150	23, 006	2, 976	45, 133

<sup>1</sup> Holders of the maturing issues were not offered preemptive rights to exchange their holdings, but were permitted to present them in payment or exchange, in lieu of cash, for the new securities offered.

<sup>2</sup> Including tax anticipation issues redeemed for taxes in the amounts of \$884 million in March 1968, \$1,288 million in April 1968, and \$2,113 million in June 1968.

The exhibits on public debt operations provide further information on public offerings and allotments by issues in tables and representative circulars. For details on participation certificate sales, retirements, and those outstanding see the Statistical Appendix.

**OWNERSHIP OF FEDERAL SECURITIES**

In consonance with the unified budget concept,<sup>1</sup> the definition of Federal securities includes both public debt issues and the issues of Federal agencies having an element of Federal ownership. In addition to direct Treasury debt, this includes the issues of the Federal Housing Administration, Federal National Mortgage Association, banks for cooperatives, Federal intermediate credit banks, and Tennessee Valley Authority. Also included are the participation certificates of the Federal National Mortgage Association and the Export-

<sup>1</sup> See pages 8-10.

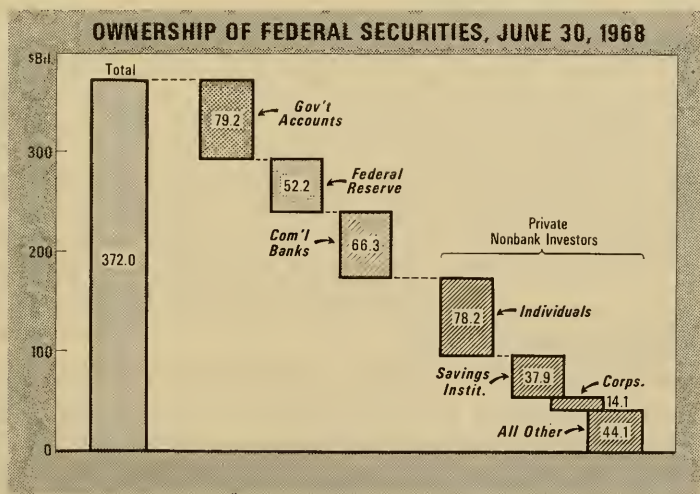
Import Bank, and defense family housing mortgages. Excluded are the Federal land banks and Federal home loan banks, both of which are entirely under private ownership, and the municipal Government of the District of Columbia.

From an ownership point, Federal securities held by the Federal home loan banks, the Federal land banks, the municipal Government of the District of Columbia, and various deposit accounts for moneys held by the Government for others are now included in the private nonbank ownership category.

At the end of fiscal 1968 public debt outstanding (direct issues of the Treasury) was \$347.6 billion, an increase of \$21.4 billion over the previous yearend. Agency issues outstanding totaled \$24.4 billion, an increase of \$6.0 billion over the previous year. The increase in public debt securities was nearly three and one-half times the increase in fiscal 1967 and the increase in agency securities was \$0.9 billion higher than the increase in the previous year. Federal Reserve banks and Government accounts absorbed \$10.9 billion of the total increase in Federal securities and private investors acquired the remaining \$16.4 billion.

At the end of the year over one-third of the total Federal securities, or \$131.4 billion, was held by Government accounts and Federal Reserve banks; slightly over one-sixth, or \$66.3 billion, was held by commercial banks; and just under one-half, or \$174.3 billion was held by private nonbank investors.

CHART 6



*Ownership of public debt securities on selected dates, 1958-68*

[Dollar amounts in billions]

	June 30, 1958	June 30, 1966	June 30, 1967	June 30, 1968	Change during fiscal year 1968
<b>Estimated ownership by:</b>					
Private nonbank investors:					
Individuals: <sup>1</sup>					
Series E and H savings bonds.....	\$42.1	\$49.2	\$50.4	\$51.1	\$0.8
U.S. savings notes <sup>2</sup> .....			(*)	.2	.2
Other securities.....	22.3	23.9	20.6	22.9	2.3
Total individuals.....	64.4	73.1	70.9	74.2	3.3
Insurance companies.....	12.2	9.6	8.6	8.1	-.6
Mutual savings banks.....	7.4	5.0	4.0	3.9	-.2
Savings and loan associations.....	3.3	7.3	7.9	9.8	1.9
State and local governments.....	16.3	24.5	24.9	26.6	1.7
Foreign and international.....	6.5	15.4	14.7	12.9	-1.8
Corporations.....	14.1	14.2	11.1	13.0	2.8
Miscellaneous investors <sup>3</sup> .....	8.2	9.5	9.9	10.8	.8
Total private nonbank investors.....	132.5	158.6	152.2	159.4	7.2
Commercial banks.....	65.2	54.8	55.5	59.8	4.3
Federal Reserve banks.....	25.4	42.2	46.7	52.2	5.5
Government accounts.....	53.2	64.4	71.8	76.2	4.3
Total gross debt outstanding.....	276.3	319.9	326.2	347.6	21.4
Percent					
<b>Percent owned by:</b>					
Individuals.....	23	23	22	21	-----
Other private nonbank investors.....	25	27	25	25	-----
Commercial banks.....	24	17	17	17	-----
Federal Reserve banks.....	9	13	14	15	-----
Government accounts.....	19	20	22	22	-----
Total gross debt outstanding.....	100	100	100	100	-----

<sup>1</sup> Including partnerships and personal trust accounts.

\*Less than \$50 million.

<sup>2</sup> U.S. savings notes first offered in May 1967.<sup>3</sup> Includes nonprofit institutions, corporate pension trust funds, nonbank Government security dealers, and Federal oriented agencies not included in Government accounts.

NOTE.—Figures based on new budget concepts; therefore certain figures for 1966 and 1967 may differ from those published in the 1967 annual report, page 25.

*Individuals.*—Public debt securities held by individuals increased \$3.3 billion during fiscal 1968 from \$70.9 billion in June 1967 to \$74.2 billion in June 1968. Two-thirds of the increase was in marketable securities; savings bonds and U.S. savings notes accounted for the remaining one-third. On June 30, 1968, individuals continued to hold more of the public debt than any other private investor category. Individual holdings of Federal agency issues increased by \$1.2 billion to a level of \$4.0 billion. This increase was second only to that of State and local governments and accounted for more than one-fifth of the total increase in agency issues.

*Insurance companies.*—Holdings of public debt securities by insurance companies declined \$0.6 billion during the fiscal year. Life companies reduced their holdings \$0.2 billion to a new postwar low of \$4.1 billion. Fire, casualty and marine companies liquidated \$0.3 billion to reduce their portfolios to \$4.0 billion. Although life insurance



companies hold a large proportion of their portfolios in long term securities, the average maturity of their marketable Treasuries declined by 16 months from the previous yearend to a level of 18 years. The average maturity of the marketable Treasuries held by fire, casualty and marine companies fell 9 months from a level of 7 years at the end of fiscal 1967 to 6 years 3 months at the end of fiscal 1968. Holdings of agency securities by insurance companies increased \$0.2 billion during the year.

*Mutual savings banks.*—Public debt securities held by mutual savings banks also continued to decline during fiscal 1968, falling \$0.2 billion to a new postwar low of \$3.9 billion. In contrast to fiscal 1967, when the structure of the mutual savings bank portfolio of Treasury securities remained relatively stable, the average length declined by 18 months to 8 years 5 months. Mutual savings bank holdings of Federal agency securities increased \$0.3 billion to \$1.3 billion.

*Savings and loan associations.*—In fiscal 1968 savings and loan associations acquired \$1.9 billion of public debt securities. In contrast to mutual savings banks and insurance companies, savings and loans have increased their holdings continuously in recent years from a level of \$2.0 billion at the end of fiscal 1954 to \$9.8 billion in fiscal 1968. The average length of this industry's holdings of marketable public debt securities was 5 years 10 months on June 30, 1968, a reduction of 1 year and 3 months in the fiscal year. Savings and loan holdings of Federal agency issues increased \$0.6 billion to a level of \$0.9 billion on June 30, 1968.

*State and local governments.*—State and local governments held \$26.6 billion public debt securities on June 30, 1968, an increase of \$1.7 billion for the fiscal year. Holdings of State and municipal pension funds increased by \$0.2 billion and holdings by general funds rose \$1.5 billion. Pension funds have about 80 percent of their public debt investments in long term issues and the average maturity of their total holdings was nearly 19 years at the end of fiscal 1968. The investments for general purpose funds of States and municipalities, however, are in relatively short maturities, generally concentrated in Treasury bills.

State and local holdings of agency securities increased by \$1.3 billion to a June 30, 1968, level of \$4.8 billion.

*Foreign and international.*—In fiscal year 1968 foreign holdings of public debt securities declined by \$0.6 billion to a yearend level of \$9.5 billion.

Special nonmarketable securities issued directly to foreign monetary authorities increased \$2.2 billion but this was offset by a \$2.8 billion drop in holdings of marketable issues. Major changes during the year by individual countries were liquidations of \$0.4 billion by both Great



Britain and Italy while Canadian holdings increased \$0.4 billion. On June 30, foreign investors held \$3.8 billion of nonmarketable securities and \$5.7 billion of marketable issues.

Holdings by international and regional institutions fell \$1.2 billion to a level of \$3.4 billion on June 30, 1968.

The decrease in holdings was accounted for by a \$1.1 billion drop in special noninterest-bearing notes issued to the International Monetary Fund with substitution of letters of credit for \$0.6 billion of this amount, and a net decline of \$0.1 billion in marketable securities held by international and regional institutions. Holdings on June 30 amounted to \$2.2 billion of noninterest-bearing special notes and \$1.2 billion of marketable securities.

In fiscal 1968, the foreign and international investor group continued to acquire Federal agency securities and added \$0.2 billion to their holdings of these securities, reaching a level of \$0.8 billion on June 30, 1968.

*Nonfinancial corporations.*—Holdings of public debt securities by nonfinancial corporations increased \$2.0 billion to a level of \$13.0 billion at the end of fiscal year 1968. By contrast, in fiscal 1967 corporate holdings declined \$3.2 billion, and in fiscal 1966 \$1.0 billion. Holdings are concentrated in the short term issues with an average length of about one year.

Corporations increased their holdings of Federal agency securities by \$0.5 billion in fiscal 1968 and now hold a total of \$1.1 billion.

*Commercial banks.*—In fiscal 1968, commercial banks added substantially to their holdings of public debt securities accounting for more than one-third of the \$11.6 billion increase in the hands of investors excluding the Federal Reserve System and Government accounts. This increase in bank holdings was nearly seven times as great as the increase in fiscal 1967, and raised their holdings to a level of \$59.8 billion on June 30, 1968. The larger reserve city banks increased their holdings of Governments by \$0.8 billion while the smaller banks had net acquisitions of \$3.5 billion.

The average length of commercial bank holdings of marketable Treasuries declined slightly to a level of 3 years. Federal agency securities held by commercial banks rose \$1.1 billion in fiscal 1968 to a level of \$6.5 billion.

*Other private nonbank investors.*—This group of investors increased their holdings of public debt securities \$0.8 billion in fiscal 1968 to a level of \$10.8 billion. Major changes were an increase of \$1.8 billion in the hands of miscellaneous investors including dealers and a liquidation of \$1.0 billion by the Federal home loan banks. Holdings of Federal agencies issues rose \$0.4 billion.

*Federal Reserve System.*—During fiscal year 1968 the Federal Reserve System absorbed a net \$5.5 billion of public debt securities as the System continued to provide for growth in member bank reserves and to offset reserve drains caused by sales of gold. Net acquisitions of Government securities this year were \$1.0 billion larger than in fiscal 1967. Holdings of Treasury bills increased \$4.3 billion and coupon securities rose by \$1.2 billion. On June 30, 1968, holdings of Governments in the System Open Market Account amounted to \$52.2 billion with an average maturity of nearly 20 months.

*Government accounts.*—Public debt securities held by Government accounts increased \$4.3 billion in fiscal 1968. Special issues held by these accounts rose \$3.3 billion and holdings of marketable securities increased by \$1.0 billion. Major acquisitions occurred in the accounts of the Federal old age and survivors insurance trust fund—\$1.3 billion; the unemployment trust fund—\$1.0 billion; the civil service retirement fund—\$0.6 billion; and the Federal disability insurance trust fund—\$0.5 billion.

At the end of fiscal 1968 Government accounts held \$76.2 billion of public debt securities. About 80 percent or \$59.4 billion of the total was accounted for by special issues. The remaining 20 percent included \$2.1 billion of nonmarketable Investment Series B bonds and \$14.7 billion of other issues, primarily intermediate and longer term marketable securities.

Holdings of Federal agency securities in Government accounts increased \$1.0 billion to a level of \$3.0 billion on June 30, 1968.

### Taxation Developments

The major tax development in fiscal year 1968 was the Revenue and Expenditure Control Act of 1968 (Public Law 90-364) which was approved by President Johnson on June 28, 1968, almost 18 months after the President's initial request for a temporary tax increase. This measure not only increased taxes but also required reduction in Federal spending and employment and amended the Social Security Act.

#### President's recommendations

The President in his state of the Union message of January 10, 1967, recommended a three-point tax program to increase revenues to meet the continuing and rising Vietnam obligations and increasing domestic needs: a 6-percent temporary surcharge on corporate and individual income tax liabilities, a speedup of corporate income tax collections, and postponement of reduction of automobile and telephone excises beyond the dates specified in the Tax Adjustment Act of 1966. The surcharge was to become effective October 1, 1967, for

individuals and July 1, 1967, for corporations, and was to remain in effect until June 30, 1969, or continue so long as the unusual expenditures associated with Vietnam require higher revenues.

When revised budget estimates at midyear indicated a substantial increase in the prospective budget deficit to be likely, the President in his message of August 3, 1967, to the Congress requested that the surcharge be raised from 6 to 10 percent. The President urged the Congress to make every effort not to exceed the January budget estimates of expenditures and pledged the executive branch to take every proper action within its power to reduce expenditures. He pointed out, however, that reductions in spending would not be easy for the budget submitted in January was already lean and outlays over which the President has discretion were limited. This overall fiscal program was urged by the President as a method of reducing the prospective deficit.

On August 14, 1967, in his statement before the Committee on Ways and Means, Secretary Fowler presented the detailed recommendations for the tax increase program and stressed five reasons why the tax increase was needed: (1) to meet the special cost of Vietnam; (2) to hold down the deficit; (3) to avoid excessively high interest rates and tight money; (4) to protect healthy economic growth and price stability; and (5) to protect our balance of payments. (See exhibit 20.) He explained that the surcharge form of tax increase was chosen as the most appropriate form for a temporary tax increase because it "is simple to administer and easy for the taxpayer to understand. It is relatively prompt and predictable in its impact. It causes minimal disturbances to the existing pattern of relationships among taxpayers, and this seems fair and sensible for a moderate, temporary, emergency increase."

On October 3, 1967, the Ways and Means Committee adopted a resolution temporarily laying aside the Administration's surcharge proposal until such time as the President and the Congress could reach an understanding on a means of implementing more effective expenditure reduction and controls as an essential corollary to further consideration of the tax increase.

In his reply of November 22, 1967, to a letter he had received from Senator Williams of the Senate Finance Committee concerning the tax surcharge, Secretary Fowler indicated that a plan had been prepared which combined the President's tax proposals with a statutory provision embodying a program of realistic expenditure reductions. (See exhibit 22.) The Secretary stated that he had requested Chairman Mills to convene the Ways and Means Committee on Novem-



ber 29 to consider this plan. On November 29, the Secretary presented the plan to the Ways and Means Committee. (See exhibit 23.)

On February 20, 1968, Chairman Mills of the Committee on Ways and Means and Representative Byrnes introduced H.R. 15414 which contained two parts of the President's tax recommendations: Extension of the excise taxes on automobiles and telephone service beyond April 1, 1968, and acceleration of corporate income tax payments. The bill was reported by the Committee on February 23 with some minor modifications and approved by the House on February 29, 1968.

In Senate Finance Committee hearings on H.R. 15414 on March 12, 1968, Secretary Fowler emphasized that the Administration was still strongly in favor of the full tax program which would include in addition to the extension of the excise taxes on automobiles and telephone service a temporary 10-percent income tax surcharge. (See exhibit 24.)

The Senate Finance Committee reported the bill on March 15, 1968, with several amendments, but did not include the 10-percent surcharge. The bill was considered by the Senate on March 22, 25-28, and April 1 and 2, 1968, and as passed on April 2, 1968, included the 10-percent surcharge, which had been added as an amendment during Senate consideration, together with measures involving expenditure control.

The bill was sent to conference on April 3. The President in a letter of May 4 to the Speaker of the House (H. Doc. 305, 90th Cong., second sess.) urged immediate action by the Congress on the tax surcharge. The House agreed to the conference report on June 20 and the Senate on June 21. The bill was signed by the President on June 28, 1968 (Public Law 90-364).

#### Revenue and Expenditure Control Act of 1968

##### TITLE I—INTERNAL REVENUE CODE AMENDMENTS

*Tax surcharge for individuals and corporations.*—A temporary 10-percent surcharge on individual and corporation income taxes was provided. For individuals, the surcharge was to be effective from April 1, 1968, and for corporations from January 1, 1968. In both cases the surcharge was to expire June 30, 1969. These effective dates meant for individuals a 7½-percent surcharge for calendar year 1968, and a 5-percent surcharge for calendar year 1969; and for corporations a 10-percent surcharge for calendar year 1968 and a 5-percent surcharge for calendar year 1969. The withholding rate was increased 10 percent on wages paid on or after July 15, 1968.

Individuals in the two lowest income brackets were exempt from the



surcharge. This exemption excluded from the surcharge, in terms of specific tax liabilities, single returns having a tax of \$145 or less (the tax on taxable income of \$1,000), joint returns having a tax of \$290 or less (the tax on taxable income of \$2,000), and head-of-household returns having a tax of \$220 or less (the tax on taxable income of \$1,500). To take care of the notch problem a special provision applied to individual taxpayers whose tax (without regard to the surcharge) was just above the amount of the exemption. They were not required to pay the surcharge at the full annual rate of 10 percent. The tax increase could not be greater than an amount equal to twice the tax which would result if the surcharge were imposed on the amount of tax above the exemption level. The effect of this provision was to phase the surcharge in gradually until it reached the full 10-percent annual rate on middle- and high-income taxpayers.

*Acceleration of corporation payments of estimated tax.*—The act provided a phased reduction in the exemption from current payment of estimated income tax and an increase in the percentage of estimated tax which must be paid by corporations which, by 1977, will place corporations on the same taxpaying basis as individual taxpayers. The Revenue Act of 1964 and Tax Adjustment Act of 1966 previously included provisions which had the effect of requiring corporations to pay in four quarterly payments 70 percent of their estimated tax in excess of \$100,000 during the current tax year, achieving this condition by January 1, 1968. However, as compared with individual taxpayers who are required to pay currently 80 percent of their estimated tax (in excess of \$40), corporations with estimated tax liabilities less than \$100,000 still could defer payment of tax until the middle of the third and sixth months after the close of the taxable year (nearly 15 to 18 months after the beginning of the taxable year) without penalty, and those with tax liabilities in excess of \$100,000 were required to pay only 70 percent of the excess currently. In order to equalize tax payment requirements of corporations and individual taxpayers, the President recommended a phased elimination of the \$100,000 exemption from estimated tax and an increase in the percentage from 70 to 80 percent to be paid currently by corporations if they were to avoid penalties for underpayment. Moreover, the President urged accomplishment of this equalization as part of the surcharge and excise tax extension legislation in order to gain the beneficial effect of an increase in tax revenues to further reduce the budget deficit.

Although the President recommended elimination of the exemption over a 5-year period, the Revenue and Expenditure Control Act of 1968 provided that this be accomplished in 10 years, according to the following schedule.

*Transitional exemptions from current payment of estimated income tax for corporations, 1968 to 1977 and later years*

FIRST 5-YEAR PERIOD

Year	Exclusion percentage	Exclusion base <sup>1</sup>	Transitional exemption <sup>2</sup>
1968.....	80	\$94,500	\$75,600
1969.....	60	94,500	56,700
1970.....	40	94,500	37,800
1971.....	20	94,500	18,900
1972.....			5,500

SECOND 5-YEAR PERIOD

	Applicable percentage	Exclusion base	Temporary estimated tax exemption <sup>2</sup>
1973.....	80	\$5,500	\$4,400
1974.....	60	5,500	3,300
1975.....	40	5,500	2,200
1976.....	20	5,500	1,100
1977 and later years.....			0

<sup>1</sup> \$100,000 less \$5,500 in first 5-year period.

<sup>2</sup> Payment of estimated tax required only if estimated tax exceeds exemptions by \$40 or more.

In effect, during the first 5 years, corporations with estimated tax liabilities less than \$100,000 determine the amount of their exemption from current payment by subtracting \$5,500 from their estimated tax and then multiplying the remainder by the percentage corresponding to the tax year; corporations with estimated tax liabilities of \$100,000 or more may exempt the amounts indicated in the schedule from current payment by subtracting \$5,500 from their estimated tax. Corporations may exempt the scheduled amounts from current payment. At no time will corporations with \$40 or less of estimated tax be required to make quarterly payments currently; this equates the tax position of the corporation with that of the individual.

The act also raised to 80 percent the percentage of estimated tax (in excess of the exemption) which corporations must pay currently to avoid payment of an additional tax amounting to 6 percent per annum on the amount of underpayment each quarter. It repealed the requirement that a corporation file a declaration of estimated tax when making its quarterly payment since the initiation of tax collection through depository banks in 1967 made the filing of declarations unnecessary.

*Continuation of excise taxes.*—The 10-percent tax on telephone service and the 7-percent tax on passenger automobiles which had been scheduled to decline to 1 and 2 percent, respectively, on April 1, 1968, were continued through December 31, 1969, with reductions to take place on January 1, 1970, 1971, and 1972, and both to be repealed on

January 1, 1973. (A joint congressional resolution, Public Law 90-258, approved April 13, 1968, had extended the existing rates through April 30, 1968. Before the end of April the Internal Revenue Service suggested to automobile manufacturers and telephone companies that in planning for the period following April 30, they take into account the pending tax bill then in the conference committee which provided for continuation of the excises at existing rates until January 1, 1970.)

*Revenue effect.*—The estimated revenue increase from the surcharge, the speedup of corporate tax payments, and the excise tax extensions for fiscal years 1968 and 1969, and for the surcharge a full-year liability at 1968 income levels is indicated in the following table.

*Estimated revenue increases from tax provisions of the Revenue and Expenditure control Act of 1968*

[In billions]

	Fiscal year	
	1968	1969
Excise taxes, extension of present rates:		
Automobiles.....	\$0.2	\$1.5
Telephone service.....	.1	1.2
Total excise extension.....	.3	2.7
Corporations estimated tax payments <sup>1</sup> .....	.0	1.0
Surcharge: <sup>1</sup>		
Individuals.....	.0	7.8
Corporations.....	.0	3.8
Total surcharge.....	.0	11.6
Total revenue increase.....	.3	15.2

<sup>1</sup> Assumes enactment of this bill too late for Treasury receipts to reflect much, if any, increase in the case of the individual or corporate income tax payments in the fiscal year 1968.

ADDENDUM.—The surcharge would provide a full year liability at 1968 income levels, as follows:

	<i>In billions</i>
Individuals.....	\$6.8
Corporations.....	3.4
Total .....	10.2

*Industrial development bonds.*—The 1968 act also provided that interest on industrial development bond issues of more than \$1 million, issued after April 30, 1968, would be subject to tax.<sup>1</sup> A bond is classed as an industrial development bond if (1) it is a part of a bond issue all or a major part of the proceeds of which are to be used, directly or indirectly, in any trade or business of a person other than an exempt person, and (2) it is in whole or in major part either (a) secured by an interest in property used in a trade or business, or in payments made in respect of such property, or (b) derived from payments in respect of property or borrowed money used (or to be used) in a trade or business.

<sup>1</sup> Under an amendment to Public Law 90-634, a \$5 million exemption may be elected, provided the entire cost of the project does not exceed \$5 million.

In addition to the exemption for bond issues of \$1 million or less, the act exempted bonds issued by a governmental unit to provide the following facilities: (1) residential real property; (2) sports facilities; (3) facilities for a convention or trade show; (4) airports, docks, wharves, mass commuting facilities, parking facilities, or facilities for storage or training directly related to any of the foregoing; (5) sewage or solid waste disposal facilities, facilities for the local furnishing of electric energy, gas, or water; and (6) air or water pollution control facilities. A special exemption also was provided for interest on a bond issued as part of an issue substantially all the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park.

*Other tax provisions.*—Other tax provisions of the act were: Extension of tax-exempt status to certain hospital service organizations, a provision regarding timely mailing of tax deposits, and allowance of a deduction for expenses for advertising in a program of a political convention held to nominate candidates for President and Vice President. (A substantially identical provision regarding advertising in a convention program had been enacted by Public Law 90-346, approved June 18, 1968.)

The act also provided that the President was to submit to Congress, no later than December 31, 1968, proposals for a comprehensive reform of the Internal Revenue Code of 1954.

#### TITLE II—EXPENDITURE AND RELATED CONTROLS

In addition to the tax measures, the Revenue and Expenditure Control Act of 1968 required a \$6 billion reduction in Federal spending during fiscal year 1968 and an accompanying reduction in Federal employment, with certain agencies and programs exempt from these limitations. It also required a reduction of \$10 billion in proposed new obligational authority shown in the budget for fiscal year 1969 and specific recommendations by the President in the budget message for fiscal year 1970 for rescinding \$8 billion of carryover obligational authority.

#### TITLE III—SOCIAL SECURITY AMENDMENTS

The Revenue and Expenditure Control Act of 1968 also amended certain provisions of the Social Security Act relating to the program of aid to dependent children and Federal matching funds for medical assistance (medicaid).

The tax provisions of the Social Security Act had been revised earlier in the fiscal year by the Social Security Amendments of 1967, approved January 3, 1968.



**Social Security Amendments of 1967**

In his aid for the aged message of January 23, 1967, the President recommended major revisions of the Social Security Act. (For a description of these recommendations, see the 1967 annual report, page 33.)

H.R. 5710, introduced on February 20, 1967, incorporated the President's recommendations. They were reformulated in H.R. 12080 which was reported by the Ways and Means Committee on August 7, 1967.

As finally approved on January 2, 1968, the Social Security Amendments of 1967 (Public Law 90-248) provided an increase in benefit payments of 13 percent for all beneficiaries. The amount of earnings subject to tax and creditable toward benefits was increased from \$6,600 to \$7,800, effective January 1, 1968. The amount of annual earnings a beneficiary under age 72 can receive without having his benefits reduced was increased from \$1,500 to \$1,680. For earnings between \$1,680 and \$2,880, \$1 of benefits is withheld for each \$2 of earnings, and for earnings above \$2,880, \$1 of benefits is withheld for each \$1 of earnings.

The new schedules of tax rates for financing social security and hospital insurance programs are shown in the following table.

*Tax rates provided by the Social Security Amendments of 1967*

[In percent]

## EMPLOYER-EMPLOYEE, EACH

Period	OASDI	Health insurance	Total
1968.....	3.8	0.6	4.4
1969-70.....	4.2	.6	4.8
1971-72.....	4.6	.6	5.2
1973-75.....	5.0	.65	5.65
1976-79.....	5.0	.7	5.7
1980-86.....	5.0	.8	5.8
1987 and after.....	5.0	.9	5.9

## SELF-EMPLOYED

1968.....	5.8	0.6	6.4
1969-70.....	6.3	.6	6.9
1971-72.....	6.9	.6	7.5
1973-75.....	7.0	.65	7.65
1976-79.....	7.0	.7	7.7
1980-86.....	7.0	.8	7.8
1987 and after.....	7.0	.9	7.9

**Excise taxes**

*Travel tax.*—In his statement of January 1, 1968, on the balance of payments which outlined a program of action to reduce the balance-of-payments deficit, the President stated the objective of reducing the foreign travel deficit by \$500 million.<sup>1</sup> On February 5, the Secretary

<sup>1</sup> See exhibit 12.

in a statement before the Ways and Means Committee recommended a program of travel taxation and customs changes.<sup>1</sup> The tax proposals were: (1) a permanent extension to foreign air travel of the 5-percent tax on domestic air travel; (2) a temporary 5-percent tax on travel by water between the United States and points outside the Western Hemisphere; and (3) a temporary tax on expenditures for travel outside the Western Hemisphere, exclusive of transportation to and from the United States. The expenditure tax rates suggested were 15 percent for expenditures of \$7.01 to \$15 a day per person and 30 percent on the excess over \$15. The customs proposals would have (1) lowered to \$10 the duty-free exemption for residents returning to the United States from countries other than Canada, Mexico, and the Caribbean area; and (2) imposed a flat rate of duty on articles brought or mailed into the country by travelers within certain monetary limits.

H.R. 16241, as passed by the House, April 4, 1968, included only the air ticket tax and customs recommendations, with some modifications.

In Senate Finance Committee hearings on the bill on June 25, the Secretary<sup>2</sup> suggested certain modifications in his recommendations of February 5, the most important of which would have limited the tax on expenditures abroad to expenditures in excess of \$15 a day (at the previously suggested 30-percent rate). No further action was taken by the Finance Committee on the recommendations.

*Transportation user charges.*—The President in his January 1968 budget message repeated prior suggestions for new and increased user charges for programs in which the services provided by the Federal Government yield direct benefits to specific individuals and businesses, notably in connection with Federal aid to highways and Federal expenditures for the airways and waterways systems. No action was taken by the Congress on these recommendations.

*Other excise legislation.*—Public Law 90-240, approved January 2, 1968, revised the method of computing the retail price of a cigar for purposes of determining the Federal tax in cases where a State or local tax was imposed on cigars.

Public Law 90-351, the Omnibus Crime Control and Safe Streets Act of 1968, approved June 19, 1968, repealed the Federal Firearms Act and substituted a new set of firearms control provisions. The new law raised the annual fees required of manufacturers, importers, and dealers in firearms and ammunition and gave the Department of the Treasury responsibility for administration and enforcement of titles IV and VII of the act which relate to possession, sale, transportation, and im-

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<sup>1</sup> See exhibit 37.

<sup>2</sup> See exhibit 25.

portation of firearms. The Secretary has delegated this responsibility to the Internal Revenue Service (Alcohol and Tobacco Division).

#### Other legislation

Public Law 90-225, signed by the President on December 27, 1967, amended a variety of tax law provisions:

(1) Provisions of the existing law that accorded tax-free status to distributions of assets to their shareholders by corporations classified as bank holding companies under the Bank Holding Company Act of 1956 and thus required to divest themselves of either their banking or nonbanking interests were extended to other corporations which had been subsequently brought within the scope of the Bank Holding Company Act by the 1966 amendments to that act.

(2) Existing law regarding the carryback of unused investment credits was amended to permit the full 3-year carryback of credits not used during a tax year by a taxpayer by reason of his having incurred a subsequent net operating loss.

(3) The tax treatment of distributions of stock of a controlled corporation by a life insurance company to its parent company was altered. Such distributions, which under existing law would have resulted in an increase in the taxable income of the distributing life insurance company, will not be regarded as taxable income if (a) both the distributing corporation and the controlled company are controlled by the same corporation to which the distribution was made, and (b) the controlled corporation is a life insurance company of which the distributing corporation has been in control at all times since December 31, 1957.

Public Law 90-240 included a provision significantly altering the tax treatment of mortgage guaranty insurance companies. Such companies, which engage in the business of guaranteeing holders of real estate mortgages against loss, are customarily required by State regulatory agencies to make large annual contributions to reserves for contingency losses from their premium incomes and to maintain those reserves for periods frequently exceeding the actual duration of mortgages guaranteed. Under provisions of Public Law 90-240, mortgage guaranty insurance companies will be permitted to take as deductions in determining taxable income up to 50 percent of annual premiums earned, provided that noninterest-bearing Federal bonds equivalent to the amount of the deduction are purchased. In subsequent years, when amounts in contingency reserves are returned to income, the bonds may be used to pay taxes or redeemed for cash.

**Administration, interpretation, and clarification of tax laws**

During the fiscal year 1968, the Treasury Department issued 28 final regulations, three temporary regulations, five Executive orders, and 22 notices of proposed rulemaking, relating to matters other than alcohol and tobacco taxes. In addition, the Department issued six final regulations and seven notices of proposed rulemaking on alcohol and tobacco tax matters.

Among the subjects dealt with in Treasury decisions published during the fiscal year were the allocation of income and deductions among related businesses, the treatment of income from an unrelated trade or business activity of an exempt organization, interest paid on indebtedness incurred or continued to purchase or carry tax-exempt bonds, transfers of property to investment companies controlled by the transferors, nonresident aliens and foreign corporations engaged in business in the United States, recapture of the investment credit on early disposition of property, and the allocation of Federal income tax liability among members of an affiliated group filing a consolidated return, for the purpose of determining their respective earnings and profits.

Notices of proposed rulemaking still pending at the year's end included those relating to the allocation of cost of investment units, social security and withholding taxes on tips, the computation of percentage depletion, the so-called cutoff point for percentage depletion, the deduction for dividends received from an affiliated corporation, interest on certain negotiable certificates of deposit, indirect contributions to political parties, and the allocation of service income and deductions among related businesses.

**"Tax expenditures"**

During fiscal year 1968 there was much public discussion of use of tax incentives to achieve various desirable social and economic objectives. The present Federal tax structure contains a large number of special deductions, credits, exclusions, and exemptions for social and economic purposes. Each of these special tax provisions reduces Government revenues available for other purposes, much as do increases in direct Government expenditures. In most cases, direct expenditures or loan programs could be utilized as alternatives for achieving the same purpose that the special tax provisions are designed to accomplish. Our Federal budget as presently constituted, however, does not report those tax revenues which the Government does not collect because income subject to tax is reduced by these special provisions. The budget in its present form thus understates the role of Federal Government financial influences on the behavior of individuals and businesses and on income distribution.



Treasury officials have suggested the need for a full accounting for the effects of these tax benefit provisions which are expenditure equivalents. Exhibit 29 discusses "tax expenditures" and for the first time presents an explicit accounting.

#### International tax matters

*Legislation and regulations.*—The Interest Equalization Tax Extension Act of 1967 was signed by the President on July 31, 1967. The act is described on page 38 of the 1967 annual report.

In April 1968 final regulations were issued under section 482 (allocation of income between related companies), covering most of the areas dealt with in the proposed regulations issued in August 1966. One section, dealing with the valuation of services was reserved and new proposals on this subject were published.

Guidelines were developed and published under Internal Revenue Code section 367. The section requires advance clearance by the Commissioner of Internal Revenue for corporate reorganizations and other adjustments involving foreign corporations. The guidelines set forth the circumstances under which the Commissioner may grant such clearances and will, thus, facilitate tax planning.

*Tax treaties.*—Income tax treaty negotiations were initiated with Finland for the purpose of revising and updating the existing treaty. Negotiations were held with Trinidad and Tobago to develop a comprehensive treaty to replace the abbreviated interim treaty which was signed in 1966. A new income tax convention with France was signed in July 1967 and sent to the Senate for ratification. It was ratified in July 1968 and came into effect in August 1968.

Negotiations were held with Argentina on an income tax treaty, and exploratory talks were conducted with Peru and Chile with a view toward initiating formal income tax treaty negotiations in the near future. Discussions on an income tax treaty with Portugal were continued during the year. Discussions were held with France to consider the discriminatory aspects of the French treatment of dividends paid to U.S. residents investing in France and to French residents investing in the United States arising from the dividends received credit granted by France.

In July 1968, at the same time that the French treaty was ratified, the Senate ratified the treaties with Brazil and the Philippines, both with reservations. The Senate reserved on the effective date of the investment credit provision in the Brazil treaty and on the provision allowing for the deduction of charitable contributions in the Brazil treaty and the Philippine treaty.

Negotiations were begun on new estate tax treaties with Sweden and the Netherlands, and agreement was reached to begin negotiations

on a new estate tax treaty with France during fiscal year 1969 and a new income tax treaty with Japan.

*International organizations.*—Treasury representatives participated in the work of the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD). During the course of the year the Committee established working parties to study changes in the OECD's 1963 draft income tax convention. Discussions were held on the problem of the allocation of profits between related companies, and the Committee initiated the preparation of an analysis of the provisions of income tax treaties between industrial countries and developing countries.

Treasury representatives attended the second General Assembly of the Inter-American Center of Tax Administrators in Buenos Aires, Argentina, during May 1968. Various aspects of tax administration and policy were discussed, such as the collection and use of information for efficient tax management and administrative implications of a common market.

A participating agreement with the Agency for International Development was signed in April 1968 under which the Treasury Department, during fiscal year 1968 and succeeding years, will conduct studies of tax policy in Latin American countries to identify policy problems and make recommendations for structural reform that would promote economic development, to assist, when requested, in implementing tax reform, and to provide training services. The first study, of the Dominican Republic, was initiated in the spring of 1968.

### International Financial Affairs

#### The U.S. balance of payments

As a result of the increased costs of the Vietnam war, increased private capital outflows, and increased tourist expenditures, the U.S. balance-of-payments deficit worsened in the second half of calendar year 1967. In the third quarter of the year the deficit, on a seasonally adjusted liquidity basis, was \$802 million. This represented an increase of \$280 million from the \$522 million deficit registered in the second quarter of calendar year 1967. For the first 9 months of 1967 the liquidity deficit, seasonally adjusted, was \$1,829 million as compared to a deficit of \$1,024 million for the corresponding period of 1966.

In the fourth quarter of 1967 the deterioration in the U.S. balance of payments that had started earlier in the year worsened sharply. The fourth quarter liquidity deficit, after adjustments for seasonal variations was \$1,742 million, more than twice the seasonally adjusted figure for the third quarter. For calendar year 1967 as a whole, the liquidity deficit was \$3,571 million, which was \$2,214 million higher than the liquidity deficit of \$1,357 million in 1966.

The fourth quarter balance measured on the official reserve transactions basis was adverse by \$1,082 million, which was a \$1,329 million deterioration from the \$247 million surplus of the third quarter. For 1967 as a whole, the balance of payments on the official reserve transactions basis was adverse by \$3,405 million which represented a \$3,671 million change from the \$266 million surplus in 1966.

Against the background of the persistent deficit in the U.S. balance of payments, the British devaluation of sterling in November 1967 resulted in a general weakening of confidence in currencies and a burst of speculative gold buying. The U.S. gold reserve declined by \$920 million in the fourth quarter of 1967. Although the gold speculation was effectively counteracted with the cooperation of most of the members of the Gold Pool, it was quite clear that this speculative buying presented a threat to the stability of the dollar and to the international monetary system as a whole.

In response to the occurrences in the latter part of 1967, President Johnson announced on January 1, 1968, a comprehensive balance-of-payments program aimed at substantially reducing the U.S. balance-of-payments deficit and reestablishing confidence in the international monetary system. The Presidential statement of January 1 reemphasized the need for congressional action on the anti-inflationary tax proposal of the Administration and urged American business and labor to take the steps necessary to maintain price and wage stability in the United States in order to insure the competitiveness of our goods in the world's markets. In addition to the steps required to strengthen the U.S. economy, the January 1968 balance-of-payments program contained a combination of temporary and long term measures designed to improve substantially the U.S. balance of payments in 1968. The temporary measures announced included:

- (1) A mandatory program to limit U.S. direct investment abroad.
- (2) A tightening of the Federal Reserve Board program restraining foreign lending by banks and other financial institutions.
- (3) A Presidential appeal to defer for 2 years all nonessential travel outside the Western Hemisphere as well as a proposal for legislation designed to reduce the U.S. travel deficit.
- (4) A variety of steps designed to neutralize the foreign exchange costs of maintaining our troops abroad and measures designed to reduce the foreign exchange costs of the Government's overseas operations.

In addition, the January 1, 1968, balance-of-payments program contained measures aimed at improving the long term strength of the U.S. balance-of-payments position by:

- (1) increasing exports by improving export financing via a \$500



million export expansion facility, improved export insurance and guarantees, and a liberalized discount facility;

(2) increasing the access of U.S. goods to foreign markets by reducing nontariff barriers; and

(3) continued programs to encourage foreign investment and travel in the United States.

The balance of payments in the first two quarters of 1968 showed substantial improvement. The seasonally adjusted liquidity deficit for the first quarter was \$660 million compared with the \$1,742 million deficit in the fourth quarter of 1967, and the nearly \$900 million quarterly average in 1967. The seasonally adjusted balance for the second quarter of 1968 showed further improvement, ending in a deficit of about \$170 million. Even greater progress was shown in the balance of payments on the official reserve transactions basis. On this measure the second quarter showed a surplus of \$1,459 million seasonally adjusted, a large swing from the \$535 million deficit for the first quarter of 1968. For the 6-month period the official reserve transactions basis showed a surplus of \$924 million compared with a deficit in the first 6 months of 1967 of \$2,570 million, and a deficit in the second half of 1967 of \$835 million.

Progress in the first half of 1968 occurred despite continued deterioration in the merchandise trade account. The unfavorable trend in the trade balance was partially offset by reductions in private capital outflows as both bank lending to foreign borrowers and direct investment capital outflows declined. Substantially increased foreign purchases of U.S. securities, both private and Government, also contributed to the favorable results in the first half of 1968.

#### Foreign exchange operations<sup>1</sup>

The international monetary system experienced intense and often prolonged pressures during the fiscal year and the cooperative arrangements which had been built up over a number of years by the major industrial countries were put to a severe but quite successful test. Early in the period financial markets were uneasy following the Middle East crisis, although official operations had successfully contained the effects of the flows of funds. Meanwhile, long-range plans for strengthening the international monetary system by the creation of Special Drawing Rights in the IMF were being successfully negotiated. More immediately, however, pressure on sterling became progressively more intense, reaching a climax in November, and resulted in the devaluation of sterling on November 18, 1967.

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<sup>1</sup> Detailed reports on Treasury and Federal Reserve foreign exchange operations are contained in the March and September issues of the "Federal Reserve Bulletin" and the "Monthly Review" of the New York Federal Reserve Bank.



As had been anticipated, this resulted in massive speculative buying on the London gold market, even though firm and concerted action among the major industrial countries successfully avoided any change in the parity of other major currencies. At the same time the U.S. balance-of-payments position also deteriorated seriously, adding to exchange market pressures and necessitating a strong new program which was announced by President Johnson on New Year's Day.<sup>1</sup> In January the Canadian dollar experienced a short lived attack resulting in large part from an exaggerated impression in the market of the probable effect on Canada of the new U.S. balance-of-payments program. This attack stopped—and capital flows commenced to reverse themselves—with the exclusion on March 7, 1968, of Canada from the balance-of-payments program.

There was a recurrence of massive speculative buying of gold in March which drained gold from monetary reserves into private gold hoarders and which culminated in the Washington communiqué,<sup>2</sup> an agreement by the active members of the Gold Pool to insulate gold reserves from market influences through creation of the two-tier gold system. After a brief lull in the gold and exchange markets, the outbreak of student rioting and labor strikes in France in late May turned speculative pressure on the French franc.

Prompt and coordinated international action was effective in dealing with each of these crises. By the end of the fiscal year the gold and foreign exchange markets had settled down to orderly trading in a reasonably calm atmosphere, although the French situation had not fully stabilized. Major operations are summarized in the following paragraphs.

Strenuous and successful efforts had been made to defend the \$2.80 parity of sterling during three rather turbulent years, but at the same time there had been contingency planning on measures that would be required in the event of a devaluation. These were aimed at preventing the spread of devaluation to other major currencies, avoiding a serious disruption of trade and payments globally and protecting the international monetary system. The Treasury Department, working closely with the Federal Reserve and other agencies, based its actions on a firm reiteration of its policy to maintain the official parity of the dollar at \$35 per ounce of gold, to participate with other monetary authorities in providing emergency credit facilities and other foreign exchange operations to the extent needed to counteract any speculative attack, and through consultation with other major countries to provide assurance that other major currency rates would remain stable.

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<sup>1</sup> See exhibit 12.

<sup>2</sup> See exhibit 39.

At the time of the devaluation of sterling the Bank of England had utilized the credit facilities provided by the Treasury and the Federal Reserve System. Shortly thereafter, the United Kingdom entered into negotiations for a \$1.4 billion standby arrangement with the International Monetary Fund, which included the provision of \$250 million in U.S. dollars by the Treasury. In addition, the United Kingdom obtained \$1.5 billion of short term credit facilities provided collectively by the U.S. Treasury, the Federal Reserve System, the Bank for International Settlements, and other central banks. These facilities, including increases in the Federal Reserve swap network and U.S. Treasury credits, were augmented at the time of the decision by the Gold Pool to cease support of the private gold markets. In June 1968, the United Kingdom drew the full \$1.4 billion available under the standby credit with the IMF, to repay much of its outstanding short term indebtedness.

The Canadian dollar came under speculative attack during the winter months of 1968. Because of the devaluation of sterling and the gold rush there was an extremely nervous atmosphere in the markets, and there were fears that the new U.S. balance-of-payments program would adversely affect Canadian access to the U.S. capital market. To bolster its reserves, Canada drew from the International Monetary Fund and from the Federal Reserve swap facility. In addition, new international credits were provided by the Export-Import Bank and European central banks. Finally, after consultations with the Canadian authorities, Secretary Fowler informed the Canadian Finance Minister that the United States would grant Canada a complete exemption from the restraints on capital flows in the new balance-of-payments program. In turn, the Canadian Minister assured the United States Government that this exemption would in no way impair the effectiveness of the U.S. program. In addition, he announced the intention of investing Canada's holdings of U.S. dollars, apart from working balances, in U.S. Government securities which do not constitute a liquid claim on the United States. Taken together, these measures assisted in stabilizing the value of the Canadian dollar in the market, Canadian reserves began to increase, and its short term indebtedness was repaid.

In May, a strong speculative outbreak occurred against the French franc which continued through the end of the fiscal year. The cost of official support for the franc in May and June came to \$1.5 billion. Part of this reserve loss took the form of gold sales by the French authorities to replenish dollar balances, including \$220 million of gold sold to the U.S. Treasury, and the balance was financed by the utilization of French drawing rights on the International Monetary

Fund of which \$150 million was provided by the Treasury in U.S. dollars. France also drew the \$100 million available under its swapline with the Federal Reserve.

During the fiscal year the Treasury issued foreign currency securities to assist in the liquidation of short term obligations, to finance other foreign exchange operations, and in connection with the neutralization of military expenditures abroad, primarily in Germany. On June 30, 1968, Treasury securities denominated in foreign currencies amounted to \$1,740.4 million equivalent compared with \$890.4 million on June 30, 1967. Apart from the issuance of foreign currency securities, the Treasury also obtained foreign currencies in connection with drawings on the IMF by Canada, the United Kingdom, and France. On March 8 the United States itself drew \$200 million equivalent of continental European currencies from the IMF<sup>1</sup> to assist further in liquidating outstanding short term commitments in foreign countries.

The U.S. reserve position in the Fund increased during the fiscal year from \$367 million at the end of June 1967 to \$903 million at the end of June 1968—despite the drawing on the part of the United States—because of the relatively large drawings of dollars by other countries, primarily the United Kingdom, France, and Canada.

U.S. participation in the Gold Pool resulted in heavy gold sales through the London Market until March 1968. Gold purchases by some foreign central banks were also stimulated by the sterling devaluation and the gold market tension, but by the end of the fiscal year the volume of these purchases was decreasing. Details of net gold sales and purchases are contained in the Statistical Appendix.

#### Treasury exchange and stabilization agreements

During the fiscal year 1968 exchange agreements were in effect with Argentina, Mexico, Nicaragua, and Venezuela. On December 31, 1967, the Treasury and the Bank of Mexico renewed their \$100 million exchange agreement for 2 years. The Treasury and the Central Bank of Nicaragua entered into a 1 year \$4.750 million agreement on March 4, 1968. A new 2 year agreement with Venezuela for \$50 million was signed on March 18, 1968. In addition, the Argentine agreement expired on May 2, 1968, and a new 1 year agreement was signed, simultaneously with the expiration, in the amount of \$75 million.<sup>2</sup>

#### Treasury foreign exchange reporting system

A number of steps were taken during the year to improve the Treasury foreign exchange reporting system, which covers capital movements

<sup>1</sup> See exhibit 60.

<sup>2</sup> See exhibits 57, 59, 61, and 62.



between the United States and foreign countries. Instructions were issued to reporting banks clarifying the reporting of bankers' acceptances and deferred payment letters of credit. A survey was taken of the types of items, other than deposits and Government obligations, included in the reports of short term banking liabilities to foreigners. Because of the increase in recent years in brokerage balances in the United States and abroad, reports of such balances were required quarterly, beginning March 31, rather than semiannually. Further study was made of the reporting of securities transactions by mutual funds with foreigners.

Data on banking liabilities to, and claims on, foreigners for the period 1957 to the end of fiscal 1968 were put on magnetic tape to facilitate their use for analytical purposes. An amendment to the Treasury Regulations was issued permitting reporting institutions to file their reports on punch cards, magnetic tape, or other machine-readable media instead of on the regular report forms.

#### International monetary system

The negotiations on an agreement for strengthening the international monetary system through the creation of the Special Drawing Rights facility reached a successful climax in fiscal 1968. The final plan is the work of the Group of Ten industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States) and the International Monetary Fund. In a series of four joint meetings between the Deputies of the Group of Ten and the Executive Directors of the Fund during fiscal 1967, a draft outline of a plan was produced.<sup>1</sup>

The draft outline left several issues unresolved. These concerned the method of decisionmaking regarding the timing and amounts of the new asset to be created, the mode of transfer of the asset between countries, and the requirements for reconstitution of balances of the asset following its use. These issues were considered and resolved by the Ministers and Governors of the Group of Ten in two meetings held in London in July and August 1967. The Group of Ten at these meetings also agreed that a review of the rules and practices of the Fund since its inception should proceed in the Fund, in parallel with the development of the plan for a Special Drawing Rights facility.<sup>2</sup> The U.S. delegation to these meetings was headed by Secretary Fowler.

The Outline Plan for the Special Drawing Rights facility was presented to the Governors of the International Monetary Fund at its annual meeting in September, where it was strongly supported and approved by the Governors without dissent. The Fund Governors also

<sup>1</sup> See 1967 annual report, pp. 42-44.

<sup>2</sup> See exhibit 30.



noted the studies on possible improvements in the rules and practices of the Fund. They instructed the Executive Directors to submit reports by March 31, 1968, proposing amendments to the Fund's Articles of Agreement and Bylaws, (a) for the purpose of establishing the Special Drawing Rights facility, and (b) as required to give effect to those modifications in the present rules and practices of the Fund that the Executive Directors might recommend.

In the spring of 1967, the Monetary Committee of the European Economic Community had put forward in the Fund several proposals which would require amendments to the Fund's Articles of Agreement beyond those required for the introduction of the Special Drawing Rights facility. These proposals called for some changes in the use of the Fund's regular credit facilities and in the procedures for taking certain decisions in the Fund. It was also proposed that the unconditional availability of the gold tranche segment of Fund drawings be clarified in order that these drawings could qualify as *de jure* as well as *de facto* reserves. Finally the EEC members felt that approval of future increases in IMF quotas should be subject to a weighted vote of 85 percent instead of 80 percent.

The Executive Directors soon began intensive meetings to turn the Outline Plan and the recommendations for Fund reform into the form of amendments, but by early March, it became apparent that the Executive Directors could not resolve all the issues and that another Ministerial meeting would be required. The Outline Plan itself did not fully resolve certain issues, among these being the question of "opting out", whereby a participant might elect not to accept allocations arising from particular decisions to create Special Drawing Rights, and the use of SDR's in transactions between member countries and the General Account of the Fund itself. Other problems regarding the Special Drawing Rights facility that had to be referred to the Ministers and Governors concerned rules regarding obligations to acquire and hold SDR's, provisions for voluntary transfers of SDR's between participants, and prerequisites for activation of the Special Drawing Rights facility. In addition, several of the proposals for Fund reform had raised issues that could not be settled by the Fund's Executive Directors. These included the size of the weighted vote necessary to approve quota increases and a uniform change in par values plus the consequent problem of the maintenance of value of the Fund's assets. A third problem dealt with the question of interpretation of the Fund's rules. Meeting in Stockholm on March 29-30, 1968, the Ministers and Governors of the Group of Ten resolved these issues to the satisfaction of all except the French delegation. The French Minister maintained that the amendments went beyond the provisions of the Draft Outline and reserved his position until he

saw the final texts.<sup>1</sup> The Fund Executive Directors were then able to complete their work. On April 16, 1968, the text of a resolution was agreed for submission to the Governors of the Fund for their approval by May 31, 1968.

After consultation with the National Advisory Council on International Monetary and Financial Policies, the Secretary, acting as U.S. Governor, notified the Fund of U.S. approval of the resolution. The necessary approval by a large majority of the Fund Governors was obtained for the Resolution and the Proposed Amendment was transmitted to all members for their formal acceptance and certification of readiness to participate in the new facility. The Proposed Amendment will enter into force for all members when three-fifths of the members, having four-fifths of the total voting power, have accepted the modifications. For the Special Drawing Rights facility to be established, it is also necessary that members representing 75 percent of the Fund's quota certify to the Fund that they have taken all necessary steps to enable them to carry out the obligations of a participant.

On April 26, 1968, the Secretary transmitted to Congress the National Advisory Council's "Special Report on the Proposed Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund" recommending approval of the Proposed Amendment. President Johnson addressed a message to the Congress on April 30, 1968, entitled "Strengthening the International Monetary System" and on May 1, the Secretary testified before the Banking and Currency Committee of the House of Representatives in favor of the bill.<sup>2</sup> The full House approved the bill authorizing U.S. participation in the Special Drawing Rights Plan on May 10, 1968. The bill was reported out by the Senate Committee on Foreign Relations and subsequently approved by the full Senate on June 6, 1968. President Johnson signed the bill (Public Law 90-349) on June 19, 1968.<sup>3</sup> The U.S. acceptance of the Proposed Amendment and certification of participation were then transmitted to the Fund. The United States was the first Fund member to complete both steps.

During these final months of negotiation leading to agreement on the Special Drawing Rights facility, the international monetary system was placed under severe pressure by the devaluation of the pound sterling on November 18, 1967, and the subsequent heavy speculative activity in the gold and foreign exchange markets. Large amounts of gold were being purchased in London by foreign holders of dollars and other currencies. Gold from new production was not enough to

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<sup>1</sup> See exhibit 41.

<sup>2</sup> See exhibit 44.

<sup>3</sup> See exhibit 45.

fill all the orders and demand was being met in large part from the gold reserves of the active members of the Gold Pool (Belgium, Germany, Italy, Netherlands, United Kingdom, United States—France withdrew from active membership in the Pool in June 1967). The Gold Pool which had been organized in 1962, had succeeded in stabilizing the price of gold on the London market without any appreciable drain of monetary reserves until the latter part of 1967.

The active members of the Gold Pool met in Frankfurt, Germany, on November 26, 1967, and issued a statement intended to discourage speculative demand.<sup>1</sup> The calming effect proved only temporary and heavy demand developed once more in December 1967. By mid-March, it was apparent that meeting private demand was likely to become more and more costly in terms of reserve losses. Furthermore, the conversion of liquid assets by private holders into gold was a serious strain on international credit markets. Credit in foreign markets was tightening and interest rates were climbing at a rapid rate. The world faced the possibility of a severe financial disturbance.

In this same period, the Administration moved to eliminate the remaining gold cover requirements for Federal Reserve notes and U.S. notes and Treasury notes of 1890, proposing legislation to this effect in January 1968. The Administration's action reflected both domestic and international considerations. On the domestic side, the demand for currency was rising about \$2 billion per year. This dictated that an additional \$500 million in gold be set aside each year to satisfy the gold reserve requirements. In addition to this, industrial gold consumption was taking some \$160 million per year. On the international side, it was felt that the strong speculative pressure in the London gold market reflected a feeling that the U.S. stock of "free gold"—that amount of gold above the gold needed to meet reserve requirements—would soon be exhausted.

Secretary Fowler testified in favor of the bill before the House Banking and Currency Committee on January 23, and the Senate Banking and Currency Committee on January 30.<sup>2</sup> On February 21, 1968, the bill, H.R. 14743, passed the House and on March 14, the Senate approved the House-passed version. The President signed the bill into Public Law 90-269 on March 18, 1968.

Against this background, the Governors of the Central Banks represented in the Gold Pool were invited by the Secretary and Mr. Martin, Chairman of the Federal Reserve Board, to meet in Washington on March 16-17, under the chairmanship of Mr. Martin.<sup>3</sup> They decided to adopt a new approach to the gold problem. This took the form of

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<sup>1</sup> See exhibit 34.

<sup>2</sup> See exhibit 12.

<sup>3</sup> See exhibit 38.



the so-called two-tiered gold system under which the private commodity price of gold is permitted to fluctuate without official intervention while the official price and role of monetary gold remains unchanged in transactions between monetary authorities. The participants agreed that they would no longer supply gold to the London market and that "in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."<sup>1</sup> The Managing Director of the International Monetary Fund issued a statement immediately following the March 16-17 meeting in which he voiced the Fund's approval of the agreement reached and called upon all countries belonging to the Fund to conduct gold transactions in a manner consistent with the agreement.<sup>2</sup>

### International Monetary Fund<sup>3</sup>

The main developments during the fiscal year, i.e., the adoption of the plan for a facility based on Special Drawing Rights in the Fund,<sup>4</sup> the devaluation of sterling and other currencies in November 1967, and the institution of a two-tier price system for gold, have been discussed in detail above. Other developments included a record use of Fund resources by member countries, including a large increase in resort to the facility for compensatory financing of export fluctuations. The Fund, along with the International Bank, was actively engaged at the close of the fiscal year in preparing a study on the stabilization of prices of primary products, in response to resolutions adopted at the 1967 annual meetings in Rio de Janeiro.

During fiscal 1968 the Fund's currency sales (drawings) aggregated the equivalent of \$3.7 billion, the largest in any fiscal year since the inception of the Fund. The three main transactions involved the United Kingdom (\$1.4 billion), France (\$885 million), and Canada (\$426 million).<sup>5</sup> The chief currencies drawn were Deutsche Mark (\$873 million), U.S. dollars (\$752 million), and Italian lire (\$497 million). Repurchases during the year aggregated \$812 million, all in currencies other than the dollar. From the beginning of operations to June 30, 1968, cumulative drawings were the equivalent of \$17.1 billion, of which \$5.9 billion was in dollars. Repurchases to June 30, 1968, aggregated \$7.9 billion, of which \$3.6 billion was in dollars.

<sup>1</sup> See exhibit 39.

<sup>2</sup> See exhibit 40.

<sup>3</sup> Fuller discussions of the activities of the International Monetary Fund and the other international financial organizations are included in the National Advisory Council's Annual Report for the fiscal year 1968.

<sup>4</sup> Consideration of the Outline Plan for the facility was the principal business of the 1967 annual meeting. See exhibit 32 for statement by Secretary Fowler as Governor for the United States. The U.S. Delegation included Under Secretary of State Rostow (alternate Governor), Treasury Under Secretary for Monetary Affairs Deming, U.S. Executive Director of the IMF Dale, and U.S. Executive Director of the IBRD Merchant as Temporary Alternate Governors. Members of the National Advisory Council and congressional committee members served as advisers.

<sup>5</sup> These figures include the Fund's repayments of its 1965 borrowings from France (\$140 million) and Canada (\$35 million).



A drawing of the equivalent of \$200 million by the United States in March 1968 marked the first use by this country of the Fund's resources since December 1966. This drawing in Netherlands guilders, Italian lire, and Belgian francs, was used to repay short term swap drawings made by the United States late in 1967. The swap drawings had been designed to help stabilize the international exchanges at the time of the uncertainties attendant upon the position of the pound sterling and its devaluation. Most of the earlier U.S. drawings had been technical drawings to enable third countries to purchase with dollars amounts needed in other currencies in repurchase transactions. The cumulative total of gross drawings by the United States was \$1,840 million on June 30, 1968, but as a result of purchases of dollars by other countries, including substantial amounts by the United Kingdom and France in the transactions noted, the United States was indebted to the Fund for only \$299 million by the end of the fiscal year.

On balance there was little gain during the year in liberalization of exchange restrictions, in the avoidance of multiple currency practices, or in the scope of bilateralism. The Fund further broadened its technical assistance activities, including expansion of the offerings of the IMF Institute, and continued its consultations with both Article XIV (inconvertible currency) and Article VIII (convertible currency) countries on economic and financial matters of mutual interest and concern.

#### **The International Bank group<sup>1</sup>**

The International Bank for Reconstruction and Development and its affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC), committed a total of \$1.0 billion during the fiscal year for financing economic development projects in the member countries. The World Bank made new loans of \$847.0 million, mainly to less-developed countries for electric power, roads, railways, and industry. In view of its limited resources, IDA credits were \$106.6 million during the year compared with \$353 million in the preceding year. IFC investments, which are not guaranteed by governments, were made in private companies on a loan and equity basis for copper mining, development banks, iron and steel plants, and some smaller items. The total amount, including underwriting commitments, was \$50 million.

The loan operations of the World Bank are financed by capital subscriptions, borrowing on financial markets, sales of participations, repayments and earnings on loans and investments. During the year the Bank's outstanding funded debt increased by \$214.3 million to the

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<sup>1</sup> For more complete discussion see NAC Report for the year ending June 30, 1968.

equivalent of \$3,289.6 million. The debt includes 78 separate issues, denominated chiefly in U.S. dollars (\$2,446.7 million), Deutsche Mark (\$422.7 million equivalent), and Swiss francs (\$204.4 million equivalent). Increases in the funded debt represented the public sale of \$300 million of U.S. dollar bonds (\$159.4 million under delayed delivery arrangements), and securities denominated in Deutsche Mark (U.S. \$30 million equivalent), Swiss francs (\$17.5 million equivalent), Swedish kronor (\$14.5 million equivalent), Canadian dollars (\$13.9 million equivalent), and Netherlands guilders (\$11 million equivalent). The funded debt was further increased through the private placement of bonds and notes totaling the equivalent of \$347.9 million and the issuance of \$158.7 million of bonds under delayed delivery arrangements of previous issues. The Bank has continued its efforts to obtain financing abroad, and has invested the proceeds of the issues on the U.S. market in longer term Treasury obligations pending disbursement, to reduce possible adverse effects on the U.S. balance of payments.

Decreases in the funded debt resulted from the retirement of bonds and notes totaling the equivalent of \$457.9 million, including \$406.4 million denominated in dollars. Purchase and sinking fund transactions amounted to \$55.9 million and the dollar value of the outstanding debt was reduced by the devaluation of sterling (\$6 million).

IDA credits are funded by member subscriptions and contributions, grants from the net earnings of the World Bank, repayment of credits, and earnings. IDA's usable resources, cumulative to June 30, 1968, amounted to \$1,795 million, of which the Part I (developed) countries contributed \$1,524 million; IBRD grants \$210 million, and earnings and contributions of Part II countries, the balance. At the end of the fiscal year only \$7 million was uncommitted.

In March 1968 agreement was reached in principle among Part I members to provide additional resources to IDA in three annual installments of \$400 million each to finance operations during the fiscal years 1969 through 1971. The U.S. share will be 40 percent or \$160 million annually for 3 years. Legislation to authorize U.S. participation in this replenishment was before Congress (H.R. 16775 and S. 3378) at the end of the fiscal year. The arrangements for the replenishment include provisions to mitigate any adverse effects on the U.S. balance of payments resulting from the U.S. participation.

#### **Inter-American Development Bank**

The Ninth Annual Meeting of the Board of Governors of the Inter-American Development Bank<sup>1</sup> was held at Bogota, Colombia, April

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<sup>1</sup> For background on the establishment and operations of the Inter-American Development Bank, see 1965 annual report, pp. 58-60.

22-26, 1968.<sup>1</sup> At this meeting the Board of Governors discussed a broad range of policy issues, including resources available to the Bank, the operating policies of the Bank, the state of the Alliance for Progress, economic integration of Latin America, and international trade and financial cooperation. Among the resolutions adopted at this meeting was one directing the Bank to initiate, in conjunction with CIAP (Inter-American Committee for the Alliance for Progress), the establishment of a task force to develop a 5-year plan and action program for projects for the physical integration of Latin America.

To obtain resources for Ordinary Capital lending the IDB increased its short and long term borrowings by approximately \$64.0 million during the fiscal year, comprising a \$60.0 million issue in the United States in November 1967, a \$6.0 equivalent Belgian franc issue also in November 1967, and a \$43 million short term dollar bond issue (nearly replacing \$45 million of maturing bonds of 1966 and 1967) placed outside the United States in April 1968. As of June 30, 1968, the Bank's cumulative total borrowings (after sinking fund purchases) amounted to \$507.4 million equivalent, of which \$335 million had been raised in the U.S. market and the balance in foreign capital markets.

The subscribed resources of the Bank's Fund for Special Operations totaled \$2,309.9 million equivalent as of June 30, 1968. The increase during the year reflected payments to the Bank by member countries under a \$1.2 billion increase in the resources of the Fund for Special Operations which became effective in December 1967. U.S. participation in this increase was authorized by the Congress in Public Law 90-88, approved September 22, 1967. The first payment by the United States, amounting to \$300 million, was made to the Bank in January 1968.

As of June 30, 1968, the Inter-American Development Bank had authorized 465 loans amounting to the equivalent of \$2,497.9 million, comprising: 157 loans amounting to \$924.0 million equivalent from its Ordinary Capital resources; 177 loans amounting to \$1,045.6 million equivalent from the resources of the Fund for Special Operations; and 117 loans from the Social Progress Trust Fund amounting to \$501.0 million. In addition, the Bank had authorized 14 loans amounting to \$27.3 million equivalent from the economic development funds it administers on behalf of the Governments of Canada, the United Kingdom, and Sweden.

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<sup>1</sup> The U.S. Governor of the Bank, Secretary of the Treasury Henry H. Fowler, headed the U.S. delegation to the meeting. The delegation included Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator, Alliance for Progress, Covey T. Oliver and Assistant Secretary of the Treasury John R. Petty (both of whom acted as Temporary Alternate Governors) together with Members of the Congress and representatives of the U.S. Government agencies constituting the National Advisory Council on International Monetary and Financial Policies.



### The Asian Development Bank<sup>1</sup>

The First Annual Meeting of the Board of Governors of the Asian Development Bank was held in Manila, Philippines, April 4–6, 1968.<sup>2</sup> At this meeting Switzerland was accepted as the 32d member of the Bank, subscribing to \$5 million of stock. This raised the total subscriptions to \$970 million and brought the total membership to 32, of which 19 are countries of the region and 13 are nonregional countries.

The second of the United States five \$20 million installments of paid-in capital was paid in August 1967, and consisted of \$10 million in cash and \$10 million in the form of a noninterest-bearing letter of credit which may be drawn on in future years when required by the Bank for disbursement. As of June 30, 1968, of the \$485 million subscriptions on paid-in capital of the Bank, installments totaling \$193.5 million had matured.

The Bank made its first loan from Ordinary Capital in January 1968, the equivalent of \$5 million to the Industrial Finance Corporation of Thailand, against which no disbursements had been made by June 30, 1968.<sup>3</sup> During the 12 months ending June 30, 1968, the Bank also extended technical assistance to Indonesia in the field of food production and distribution, to the Agricultural and Fisheries Development Corporation of Korea, to the Philippines on water management, and to Vietnam on development financing. In March 1968, the Bank issued the Asian Agricultural Survey, which constitutes a major model study of Asian agriculture.

On September 26, 1967, President Johnson submitted to the Congress the ADB Special Funds bill (S. 2479 and H.R. 13217), which would authorize the appropriation of up to \$200 million over a 4-year period as the U.S. contribution to Multilateral Special Funds of the ADB. Under the proposed legislation the U.S. contribution would constitute less than one-half of the total contributions to the Bank's Special Funds, would be available only for the procurement of U.S. goods and services, and would be used to finance high priority development programs and projects in such key areas as agriculture, transport and communications, and Mekong development. At the First Annual Meeting of the ADB Board of Governors, developed country members of the ADB offered to contribute a total of \$128.1 million to the Bank's Special Funds—Japan offered \$100 million, mainly for agricultural

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<sup>1</sup> For background on the establishment and early operations of the Asian Development Bank (ADB), see 1966 and 1967 annual reports, pp. 64–65 and pp. 49–50, respectively.

<sup>2</sup> Under Secretary of the Treasury Joseph W. Barr headed the U.S. delegation to the meeting. The delegation included Assistant Administrator for East Asia of AID John C. Bullitt and U.S. Director of the Asian Development Bank Bernard Zagorin (both of whom acted as temporary alternate Governors), together with representatives of the Treasury Department and AID and the Secretary of the Senate.

<sup>3</sup> A \$2 million equivalent loan to the Central Bank of Ceylon for modernization of tea factories was made in July 1968 and a \$6.8 million equivalent loan was made in September 1968 to the Republic of Korea for the Seoul–Inchon Expressway project.



development, of which \$20 million was appropriated for this year; Canada offered \$25 million over the next 5 years; Denmark offered an initial contribution of \$2 million for agriculture; and the Netherlands offered \$1.1 million for agriculture for the current year.

In June 1967 the United States made available to the ADB \$250,000 for technical assistance, of which \$161,798 had been used by June 30, 1968. Japan has made available \$131,000 for technical assistance, Canada \$100,000, Germany \$40,000, Denmark \$300,000, and the United Kingdom, Finland, India, and Korea unspecified amounts of technical assistance.

### Organization for Economic Cooperation and Development

The seventh Ministerial Council meeting of the Organization for Economic Cooperation and Development (OECD) in Paris November 30–December 1, 1967, stressed the need for both surplus and deficit countries to intensify their efforts to reduce persisting disequilibria in their external positions. Progress in examining trade relations with developing countries was also noted. A Treasury representative served on the U.S. delegation.

Both the Economic Policy Committee (EPC) of the OECD and its Working Party on Policies for the Promotion of Better International Payments Equilibrium (Working Party 3) concentrated much of their attention during the year on the balance of payments of the United States and the United Kingdom and the need for complementary adjustment by other countries. Under Secretary of the Treasury for Monetary Affairs Deming served as chairman of the U.S. delegation to Working Party 3 and as a member of the EPC delegation.

When the Foreign Direct Investment Program was introduced in January 1968, the United States invoked the balance-of-payments derogation clause of the Code of Liberalization of Capital Movements. The Committee for Invisible Transactions, on which a U.S. Treasury official serves, reviewed the U.S. action and the Council of the OECD found the United States justified.

A Treasury representative led the U.S. delegation in discussions in an ad hoc group of the Trade Committee concerning Germany's shift to a value-added tax. The group could not agree on the impact of the change on international trade. Similar discussions with Belgium and the Netherlands are scheduled for fiscal year 1969.

A Treasury representative led the U.S. delegation to the September 1967 meeting of the group on export credits and credit guarantees. Treasury representatives participated actively in the work of the Fiscal Committee,<sup>1</sup> in the annual examination of the United States by the Economic Development and Review Committee, and in a group which

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<sup>1</sup> For a description of the activities of the Fiscal Committee see p. 37.

examines short-term economic prospects. A Treasury official regularly represents the United States as an observer at the meetings of the Managing Board of the European Monetary Agreement.

### Trade policy

With the successful conclusion of the Kennedy Round tariff negotiations, the United States began an extensive review of its trade policy. At the request of the President, the Special Representative for Trade Negotiations instituted a wide-ranging study of future U.S. foreign trade policy which included both public hearings and analysis by experts within the Government. Treasury Department representatives participated in the public hearings and the development of background papers for the study.

At the request of the United States, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) established a working party to examine the GATT rules dealing with border tax adjustments, i.e. the remission of indirect taxes on exports and the levying of compensatory duties on imports. The Treasury Department has taken an active and leading role in the international discussions of this issue since the GATT rules disadvantage our trade and adversely affect our balance-of-payments position. Treasury representatives, led by Assistant Secretary Petty, have been members of the U.S. delegation to the GATT meetings on this subject. The sharp reduction of tariff barriers has focused increased attention on nontariff barriers to trade. The GATT has established a procedure for examining these nontariff barriers and an inventory has been drawn up.

As a member of the Trade Staff Committee, the Trade Executive Committee, and the Trade Information Committee, the Treasury Department actively participated in the development of U.S. trade policy. A Treasury representative was also a member of the U.S. delegation to the 24th session of the Contracting Parties to the GATT and various other GATT committees and working parties as well as the Second United Nations Conference on Trade and Development (UNCTAD).



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## ADMINISTRATIVE REPORTS

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## **Administrative Management**

### **Management improvement program**

The Department realized \$28.1 million and 2,580 man-years in savings during fiscal 1968 from actions to improve management.

While not the result of management improvements, additional benefits amounting to \$68.8 million flowed from policy changes. The largest portion, \$55.1 million, resulted from a policy decision of July 14, 1967, to sell silver reserves at the market value rather than at the monetary value. Net receipts from the sale of proof coins added \$3.3 million to the general fund. An additional \$10.4 million is attributable to a reduction in borrowing costs because new requirements for the earlier deposit of withheld taxes resulted in earlier availability of these funds.

### **Special studies and projects**

The individual bureau reports which appear later contain details of studies and projects carried on by the bureaus to promote economy and efficiency. Among the studies completed at the departmental level were those of the organization and management of the Treasury laboratories and of the Bureau of Narcotics before its transfer to the Department of Justice on April 8, 1968. At the request of the Bureau of the Budget, the Treasury also participated in a study to develop the organization and administrative structure for a new consolidated law enforcement training center for all Federal agencies except the FBI and Defense Department. In addition, revisions were made in the custody and handling of coin and currency in the main Treasury building. The program to improve services to the individual citizen was pursued vigorously, and a checklist was developed to appraise progress in the program.

Treasury participation in the foreign technical cooperation programs of the Agency for International Development increased with the introduction of a new program of tax policy assistance for certain Latin American countries. There was also an increase in the number of participants from developing nations who received instruction and training in Treasury operating methods.

### **Emergency preparedness**

An appropriate degree of emergency preparedness was maintained during the year. A selected group of employees participated in the National Civil Defense Exercise in October 1967 at the Department's relocation site, and emergency communications operators attended periodic training exercises there. Indoctrination sessions with field office representatives having emergency assignments at Federal Regional Emergency Operating Centers were held to maintain the regional emergency plan. Defense readiness planning instructions were brought up to date for guidance of bureaus and offices. The Treasury

collaborated with the Office of Emergency Planning on technical matters concerning emergency functions of the Department.

### Planning and program evaluation

Planning and program evaluation aids in improving the allocation of the Department's resources by developing the relative costs and benefits of alternative courses of action and by providing staff leadership, coordination, and direction of the Department's planning-programing-budget system.

During fiscal 1968 this staff:

(1) Developed a pilot study for the determination of an optimum level of examination of mail packages by the Customs Bureau including the application of sampling techniques to develop the basic data. In addition, cooperation continued in the development of improved output and related cost data systems in the bureau;

(2) Participated in the current review of the planning and evaluation techniques employed by Internal Revenue Service's automatic data processing complex;

(3) Continued the preparation of the monthly coin sample as a measure of the rate of disappearance of silver coin from circulation and the further transition to clad coin, and developed a series of analyses in coin requirements;

(4) Coordinated preparation by the Treasury bureaus of the third annual program and financial plan, together with supporting analytical material as a basis of determinations on fiscal year 1970 program levels;

(5) Developed cooperatively with Budget Bureau staff the format and substance of a compendium setting forth the Treasury program in planning-programing-budgeting terms, designed as a model for further compendiums supplementing the President's budget; and

(6) Providing an analytical basis for a proposed allocation of resources in the U.S. Savings Bonds Division.

### Financial management<sup>1</sup>

*Budgeting.*—The working capital fund sought for the Office of the Secretary to finance common service functions performed for other Treasury bureaus had received approval from the House of Representatives but not the Senate at fiscal yearend. Controls were exercised in expenditures, employment, overseas travel and employment, and size of motor vehicle fleets. Information was provided the Office of Economic Opportunity for use in preparing the publication "Summary of Federal Programs—A Report of Federal Program Impact on the Local Community" and that publication became the principal source document for providing information on Federal expenditures by geographic or political subdivision. The supplemental or appropriation request for the cost of pay and postal rate increases, taking effect in fiscal year 1968, principally under Public Law 90-206, was held to \$8.9 million although the costs totaled \$30.5 million. Costs were absorbed to the extent of 71 percent by application of management savings and reimbursements and use of budgetary reserves and transfers between appropriations.

<sup>1</sup> See detailed statement in the "Annual Report of the Secretary of the Treasury on Improvements in Financial Management."

*Automated payroll operations.*—A review of all payroll operations was completed. Action was initiated to convert the Secret Service payroll operation to the IRS computer system. Arrangements were completed for continuation of payroll services to the Coast Guard and the Bureau of Narcotics, which had been transferred to other departments, until such time as they are able to provide their own services.

The payroll for the Comptroller of the Currency was authorized to be placed on the automated system of the fiscal service effective January 1969.

*Accounting systems.*—Administrative accounting systems of the Office of the Treasurer of the United States and the Bureau of the Public Debt were approved by the Comptroller General. Department-wide administrative accounting principles and standards applicable to all Treasury bureaus were drafted and were being considered by the General Accounting Office at the fiscal yearend.

*Management of automatic data processing.*—Significant benefits were obtained through the use and management of the Department's 60 computers, other ADP equipment, and the related operations which required over 19,000 man-years and \$135 million in fiscal year 1968. Benefits to the public include more uniform and equitable treatment of taxpayers, a speedup in the issuance of tax refund checks, improved handling of current income savings bonds operations, and continued improvements in issuing benefits and salary checks. Benefits to Federal fiscal and tax administration include expansion of net additional revenue as a result of Internal Revenue's ADP masterfile system. Operating benefits include over \$1 million and 150 man-years in recurring and \$213,000 and 38 man-years in one-time reductions in operating costs, over \$1 million worth of sharing of ADP facilities, use of excess as well as new equipment and extensive participation in Government-wide efforts to bring about standardization and compatibility in computer-based data processing operations.

*Internal auditing.*—Following completion of initial reviews and appraisals of internal auditing activities in all Treasury bureaus and offices, the departmental internal audit staff concentrated on assisting the bureaus in improving their internal auditing operations. This included help in developing improved audit policy statements and manuals for the guidance of their audit staffs. In addition, the departmental staff audited Office of the Secretary administrative accounts and selected procedures and practices, and conducted a special audit of similar accounts for the Bureau of Narcotics prior to its transfer to the Department of Justice.

#### **Personnel management**

In the fiscal year 1968 emphasis was again placed on improving all areas of personnel management, with continued particular attention to special programs of interest to the President.

The equal employment opportunity program forged ahead with the placement of minority employees in positions never before occupied by this group. Bureaus revised their equal employment opportunity action plans to schedule positive action goals for fiscal 1969 and to include the new Federal woman's program established by Executive Order 11375 issued by the President on October 13, 1967. Individual conferences were held with bureau heads to followup on positive ac-



tion taken in furtherance of the equal employment opportunity objectives.

Despite drastic cutbacks in the number of employees hired, the Department managed to hire 80 percent of the number of handicapped persons hired during fiscal 1967, which represented an alltime high year for the Department. Special emphasis was placed on training and employment of the blind. As a result of a successful pilot training program during the fiscal years 1967 and 1968, HEW made available a grant of \$100,000 for training 50 blind persons to be employed by IRS during the next 3 years.

The executive assignment system affecting supergrade positions was introduced into the Treasury Department through installation of streamlined procedures, detailed records, and other control measures designed to effect promptly all personnel actions involving key positions. Among measures adopted was establishment of an executive assignment board and an executive assignment committee to review and approve recommendations for recruitment, selection, and placement of top officials on a systematic and objective basis.

The Department continued to participate in the development of a coordinated Federal wage board system. Specific recommendations were made to the Civil Service Commission for regulatory provisions in the system. Data were furnished and obtained to facilitate development of the Government-wide system.

A new nationwide plan for the inspection of Treasury personnel operations was jointly formulated with the Civil Service Commission. Inspection under the plan is scheduled for fiscal 1969.

Although there are still areas of incomplete development in the organized relations between labor and management in the Treasury Department, during fiscal 1968 there have been substantial gains in (1) union membership, which approaches 50 percent of the total employment, (2) recognitions granted, both exclusive and formal, and (3) negotiated agreements.

This increased activity has created a greater awareness, among supervisory and managerial personnel, of the rights and aspirations of organized employees, and of the continuing need to improve working conditions and apply personnel policies fairly and impartially.

Estimated first year benefits from employee suggestions totaled \$935,112 and similar benefits recognized by performance awards brought the total to \$1,652,762.

Budgetary restrictions made it unusually difficult to meet employee training requirements. Every effort was made to provide immediately required operational training. As a result, advanced professional and technical training and supervisory and management development and other training with longer range objectives was deferred.

#### **Administrative services**

*Personal property.*—From April 1967 through March 1968, Treasury declared as excess to its needs property having an original acquisition cost of about \$3,455,000 and reassigned excess property valued at \$782,000 within the Department. Personal property transferred to other Federal agencies totaled about \$1,103,000. In turn, Treasury received about \$1,004,000 of excess personal property from other Federal agencies without reimbursement. Personal property valued at \$3,596,000

was determined surplus; \$1,294,000 worth of personal property was released for donation through GSA and DHEW clearances. Proceeds from sales of surplus, including scrap, totaled \$53,000, for deposit to the general fund of the Treasury.

*Real property.*—During the fiscal year 1968, Treasury activities in 29 locations in 11 cities were consolidated into single locations, with attendant increases in productivity and economy. Treasury activities were relocated from leased to Government-owned buildings in 32 locations with rental savings. Forty-eight offices occupying both Government-owned and leased space were closed with an annual rental savings of approximately \$51,000.

*Library.*—A 3-year program to modernize and upgrade the Department's library facilities was completed.

*Safety.*—The frequency of disabling injuries dropped in calendar year 1967 as well as the number of days lost and the frequency of motor vehicle collisions.

#### **Security activities**

During fiscal year 1968, physical security inspections were conducted in the offices within the Office of the Secretary, bureau headquarters offices, and 44 bureau field offices.

In the personnel security program, 1,280 sensitive cases, 431 non-sensitive cases, and 590 reinvestigation cases were processed. A survey of all personnel holding "Q" clearances was made to determine if they were still needed. If not, they were canceled.

### **Office of the Comptroller of the Currency**

The Comptroller of the Currency, as the Administrator of the National Banking System, is charged with the responsibility of maintaining the public's confidence in the System by sustaining the banks' solvency and liquidity. An equally important public objective is to fashion the controls over banking so that banks may have the discretionary power to adapt their operations sensitively and efficiently to the needs of a growing economy.

#### **Office operations**

During fiscal 1968 emphasis was placed on improving the quality of the bank examining function, while exploring more efficient methods of meeting the challenges and requirements of the growing National Banking System. Modernization of bank examining methods continues as a major theme in this Office. Twenty-eight national bank examiners have become experts in the field of electronic data processing. This training has been a necessary and effective refinement of bank examining procedures and has aided this Office in its evaluation of the National Banking System.

In Washington, a major reorganization within the Administrative Department established the proper allocation of major administrative responsibilities in the Office, including the creation of a Fiscal Management Division and a Management Services Division, the latter comprised of experienced management analysts and computer technicians. This improvement in administration is another facet of the continued program of modernization throughout the organization.

The program of active cooperation with other Federal bank regulatory agencies continues, creating more efficient and meaningful methods of gathering significant information. The present trend of active participation by joint committee members to further streamline administration of the banking system is expected to continue.

### **Personnel**

Personnel administration played a vital part in the Office's progress. To alleviate the critical shortage of qualified personnel, a select group of regional recruitment coordinators was established in each of the 14 national bank regions. The recruiters were given training, instruction, guidance, and responsibility for recruitment on college and university campuses throughout the multistate area covered by their region. During fiscal 1968 there was a marked increase in the activities of these recruiters throughout the country, which resulted in a net gain of 84 new assistant national bank examiners and assistants in trust. In the fall of 1967 the second annual recruiters' conference convened in Washington to provide a forum for an exchange of experience and methods used in the various regions throughout the country.

The incentive awards program was given special emphasis in fiscal 1968. Employee response has resulted in further modifications of procedures and methods. In addition, all phases of the Office training program received new attention. Various schools and seminars were conducted for all levels of employees. During the fiscal year, a study was initiated for the purpose of evaluating instructional techniques used in the training of assistant national bank examiners which is expected to result in a more effective training program.

### **Fiscal management**

A sound fiscal management program was implemented and strengthened during fiscal 1968. Tighter expenditure control, an improved and expanded accounting system, a timelier investment program in Government securities, and a more responsive fiscal information system have been instituted, along with studies for improving other support operations in this important area of the organization.

### **Information services program**

The purpose of this program is to make the policies and procedures of the Office of the Comptroller of the Currency better known and to facilitate communications among the Office, the banking industry, and the general public.

Four basic manuals are available to employees, banks, and other interested parties: "Comptroller's Manual for National Banks," "Comptroller's Manual for Representatives in Trusts," "Comptroller's Policy Guidelines for National Bank Directors," and "Instructions, Procedures, Forms for National Bank Examiners." A new publication has been issued to the National Banking System. This "Directory" contains the address and telephone number of every decisionmaking official in the Office together with his picture and a biographical sketch. The "Annual Report of the Comptroller of the Currency" is available to interested parties and contains a general statement of policy, descriptions of the state of the National Banking System, of Office operations,



and reprints of selected Office documents relating to crucial public issues in banking.

### Status of national banks

While the number of national banks decreased from 4,780 to 4,743 during fiscal 1968, the number of national bank branches rose from 9,710 to 10,240, a 5.4 percent increase. These branches were operated by 1,502 of the 4,743 national banks, for a total of 14,983 national bank offices. During the 12 months preceding June 30, 1968, a total of 18 charters were issued for newly organized national banks. Approval

#### *Number of national banks and banking offices, by States, June 30, 1968*

	National banks			Number of branches	Number of offices
	Total	Unit	With branches		
United States.....	4, 743	3, 241	1, 502	10, 240	14, 983
Alabama.....	88	50	38	156	244
Alaska.....	5	0	5	41	46
Arizona.....	4	1	3	188	192
Arkansas.....	67	36	31	73	140
California.....	77	27	50	1, 926	2, 003
Colorado.....	118	118	0	0	118
Connecticut.....	30	8	22	191	221
Delaware.....	5	3	2	4	9
District of Columbia.....	9	0	9	55	64
Florida.....	202	202	0	0	202
Georgia.....	62	33	29	142	204
Hawaii.....	2	0	2	41	43
Idaho.....	9	3	6	103	112
Illinois.....	421	408	13	13	434
Indiana.....	123	54	69	289	412
Iowa.....	102	64	38	46	148
Kansas.....	171	145	26	26	197
Kentucky.....	80	37	43	126	206
Louisiana.....	48	15	33	151	199
Maine.....	21	6	15	77	98
Maryland.....	48	17	31	214	262
Massachusetts.....	88	21	67	384	472
Michigan.....	98	30	68	498	596
Minnesota.....	195	193	2	6	201
Mississippi.....	36	7	29	109	145
Missouri.....	98	78	20	20	118
Montana.....	48	47	1	1	49
Nebraska.....	127	108	19	19	146
Nevada.....	4	1	3	55	59
New Hampshire.....	53	30	23	30	83
New Jersey.....	145	38	107	507	652
New Mexico.....	34	14	20	59	93
New York.....	182	80	102	1, 094	1, 276
North Carolina.....	23	7	16	306	329
North Dakota.....	42	33	9	9	51
Ohio.....	220	83	137	629	849
Oklahoma.....	220	185	35	35	255
Oregon.....	12	6	6	227	239
Pennsylvania.....	331	181	150	908	1, 239
Rhode Island.....	4	0	4	56	60
South Carolina.....	26	4	22	214	240
South Dakota.....	34	25	9	49	83
Tennessee.....	77	20	57	243	320
Texas.....	539	539	0	0	539
Utah.....	12	9	3	55	67
Vermont.....	27	13	14	39	66
Virginia.....	111	36	75	403	514
Washington.....	27	12	15	378	405
West Virginia.....	80	80	0	0	80
Wisconsin.....	117	94	23	41	155
Wyoming.....	40	40	0	0	40
Virgin Islands.....	1	0	1	4	5
District of Columbia—all <sup>1</sup> .....	14	1	13	95	109

<sup>1</sup> Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.



was granted by the Comptroller for the conversion of eight State banks to national banks.

Total assets of national banks reached \$265.5 billion on June 29, 1968, an increase of \$23.5 billion, or 9.7 percent, during the previous 12 months. Total loans were \$140.7 billion, compared to \$130.1 billion 12 months before. Reversing a persistent trend at least temporarily, time and savings deposits of national banks did not grow as fast as demand deposits during fiscal 1968: the respective increases were 8.0 percent, to \$111.7 billion compared with 9.0 percent, to \$117.3 billion. Net current operating earnings in calendar 1967 were up 5.0 percent over the 1966 figures, while net income after taxes rose 11.1 percent, reaching \$1.8 billion.

*Assets, liabilities, and capital of national banks, selected dates*

[In millions of dollars]

	June 30, 1967 (4,780 banks)	Dec. 31, 1967 (4,758 banks)	June 29, 1968 (4,742 banks)
<b>ASSETS</b>			
Cash, balances with other banks, and cash items in process of collection .....	39,462	46,634	44,787
U.S. Government securities .....	29,544	34,308	31,627
Obligations of States and political subdivisions .....	27,660	29,002	30,630
Other securities .....	5,409	6,346	6,285
Total securities .....	62,613	69,656	68,542
Federal funds sold and securities purchased under agreements to resell .....	2,643	2,562	3,113
Direct lease financing .....	360	412	460
Loans and discounts .....	130,082	136,753	140,690
Fixed assets .....	3,644	3,876	3,893
Customers' liability on acceptances outstanding .....	1,181	1,182	1,250
Other assets .....	2,054	2,300	2,762
Total assets .....	242,039	263,375	265,497
<b>LIABILITIES</b>			
Demand deposits of individuals, partnerships, and corporations .....	80,208	92,686	87,595
Time and savings deposits of individuals, partnerships, and corporations .....	90,488	95,104	98,695
Deposits of U.S. Government .....	3,367	3,297	3,010
Deposits of States and political subdivisions .....	18,466	18,511	19,377
Deposits of foreign governments and official institutions, central banks, and international institutions .....	3,344	3,483	2,994
Deposits of commercial banks .....	11,470	13,963	12,441
Certified and officers' checks, etc. ....	3,755	4,330	4,916
Total deposits .....	211,098	231,374	229,028
Demand deposits .....	107,595	123,038	117,296
Time and savings deposits .....	103,503	108,336	111,732
Federal funds purchased and securities sold under agreements to repurchase .....	3,140	3,182	4,371
Liabilities for borrowed money .....	279	297	726
Acceptances executed by or for account of reporting banks and outstanding .....	1,206	1,205	1,275
Other liabilities .....	7,218	7,587	9,594
Total liabilities .....	222,941	243,645	244,994
<b>CAPITAL ACCOUNTS</b>			
Capital notes and debentures .....	1,227	1,235	1,390
Preferred stock .....	30	55	50
Common stock .....	5,252	5,312	5,505
Surplus .....	8,405	8,832	9,000
Undivided profits .....	3,539	3,549	3,840
Reserves .....	585	747	709
Total capital accounts .....	19,098	19,730	20,503
Total liabilities and capital accounts .....	242,039	263,375	265,497

## Résumé

The change and growth of the Office of the Comptroller of the Currency continues its direct relationship to the growth and vitality of the National Banking System. Internal operations and administration are undergoing continual refinement and improvement to better serve the public and the banking industry.

## Bureau of Customs

The Bureau of Customs is responsible for the assessment and collection of import duties and taxes and the control of carriers, persons, and articles entering or departing the United States; for administering the tariff and related laws affecting international trade and traffic; for detecting and preventing smuggling and frauds on the revenue; and for regulating vessels in the coastwise and fishing trades. The Customs Service conducts a continuing program of informing the public and encouraging voluntary compliance by the international trading community with the laws, regulations, and controls established by Customs and numerous other Federal agencies.

### Cost reduction/management improvement program

During fiscal year 1968 this program resulted in the greatest annual savings in the Bureau's history, benefits exceeding \$6,873,000. Of this amount, approximately \$500,000 represented "cost reduction" and \$6,400,000 "cost avoidance."

A large part of the savings were utilized in the Customs Service to cope with the constantly increasing workload without adding to staff or to expenditures.

### Bureau operations

*Collections.*—Revenue collected by Customs during fiscal 1968 reached an alltime high of \$2.9 billion—an 8.4-percent rise over 1967. This included customs duty collections, excise taxes on imported merchandise collected for the Internal Revenue Service, and certain miscellaneous collections. Collections and payments by customs regions and districts are contained in the Statistical Appendix. The major classes of all collections made by the Customs Bureau are also shown in that volume. The cost of collecting each \$100 was \$3.09 compared with \$3.27 in fiscal 1967.

*Carriers and persons entering.*—Nearly 214 million persons were subject to customs inspection during fiscal 1968, a 5.8-percent increase in persons arriving and a 5.9-percent increase in carriers over fiscal 1967. (See the Statistical Appendix.)

*Entries of merchandise.*—Both the volume and value of imports continued to climb, with the value reaching \$29.5 billion in fiscal 1968 compared with \$26.4 billion last year—an increase of 11.7 percent. The volume and type of entries handled during the last 2 fiscal years are shown in the Statistical Appendix.

A total of 38.3 percent of all imports entering the United States during the year were duty free and included commodities imported free for Government stockpile purposes or authorized for free entry by special acts of Congress. The remaining 61.7 percent were subject to duty.

*Automatic data processing.*—During the year the process of phasing-in the revenue and appropriation accounting system was substantially advanced. The first 6 months were occupied with extensive reprogramming that was required to make the system operational. Toward the end of the 6-month period, the system became totally operational in three regions with the discontinuance of manual accounting. Two more regions had been added to the system by the fiscal yearend.

The Bureau continued the system design of a computerized report of importer's bond coverage, in-bond shipment control system, and produced reports of user charges for management use.

In addition, a request for proposals was developed to conduct a feasibility study for the automation of formal entry processing and merchandise control. The Bureau is also engaged in an experimental study with Pan American and Emery Air Freight to automate the clearance of manifests on certain cargo flights at the John F. Kennedy International Airport in New York.

During fiscal 1968, 30 key managers attended a 1-week ADP concepts course. A training plan for management analysts, operations officers, and other technicians in the fundamentals of ADP systems design and analysis was developed.

In order to provide greater overall direction to the Bureau's ADP program, a planning committee was established with the mission of developing a long-range program for automating customs activities. The committee is composed of key Bureau and field officials.

*Audits.*—During fiscal 1968, 319 offices were examined and 103 internal audit reports were made. A total of 306 commercial audits of brokers and 39 cost systems audits (wool) were made; 46,904 liquidations were verified taking 3,547 corrective actions and an audit survey of the ADP system was completed, including its services to the accounting functions of the customs regions. A report was made which pointed up the need for data control, management control, and more effective services to regional customs accountants.

*Security.*—The fruits of continued efforts to improve the overall Bureau security program became more apparent during the year. Inspections of Bureau headquarters and many field offices by Department of the Treasury officials failed to disclose any major deficiencies. Customs was commended on several occasions for improving its security measures.

A new category of investigation, initiated in fiscal 1967, has now been evaluated. Its purpose was to explore and make preliminary checks of information or allegations to insure that personnel conduct investigations were not opened unless warranted. The category further served as a factfinding means to inquire into broad, overall conditions pertaining to general conduct, irregularities, and procedural matters affecting public confidence. It has proved beneficial both to customs employees and management by giving added protection to the rights of employees as well as eliminating unnecessary work caused by the formal processing of conduct investigations.

Publication of the Bureau of Customs "Security Manual" was a major accomplishment during the year.

*Equal employment opportunity.*—During fiscal 1968 the Bureau of Customs introduced a new self-evaluation and reporting system



that provides a uniform communication channel between the Bureau and field offices for the transmission of program information. The plan for the field and Bureau headquarters was updated to meet local needs and resources and to encompass the Federal women's program. The number of minority group and female employees holding responsible positions grew steadily.

*Foreign Customs Assistance.*—The largest overseas concentration of Customs advisors continues to be in Vietnam. U.S. Customs had contracted to supply 26 men, but the number had been reduced to 16 by the end of fiscal 1968 (because of AID budget restrictions). Their mission was the institutional development of Vietnamese Customs Service; the monitoring of the commercial import program; and supervision of the Societe de Surveillance, an organization under contract to the U.S. Government performing commodity inspections of bulk merchandise.

At the end of fiscal 1968 five teams were operating in Latin America and one man was in Liberia. One man was assigned to Afghanistan and one to the Philippines.

During fiscal 1968, 32 countries sent 171 Customs officers to the United States for training. This training in customs techniques is designed to enable these officers to develop more efficient customs service in their home countries, eventually enhancing the economic independence and viability of these countries.

*Planning and research.*—The installation of a comprehensive management information system was begun in fiscal 1968. Random time sampling of customs activities was installed in the New York and Miami regions.

Initial study of the possibility of increasing importers' voluntary compliance in payment of customs duties was completed in fiscal 1968 and some beneficial results were obtained. Studies also were initiated to help determine an optimal rate of mail examination to insure adequate enforcement and maximum revenue.

Methods for developing accurate econometric forecasts of imports, by quantity and value, were explored to aid management in making planning decisions. A model for 1-year forecasts of imports and customs collections was developed. Work on this was closely coordinated with the Council of Economic Advisers, the Office of Business Economics, other parts of Treasury, and other interested agencies.

*Facilities management.*—In collaboration with the Immigration and Naturalization Service, four employee residences were completed in North Dakota. One border station in New York, two residences in Maine, and three residences in Montana were under construction or nearing completion by the end of fiscal 1968.

A concept study for a new border station at Champlain, N.Y., was reviewed and approved.

Plans for major improvements to customs facilities prepared by GSA were reviewed for the Alaska Highway Station; Calexico, Calif.; San Ysidro, Calif.; Douglas, Ariz.; and Massena, N.Y. Space requirements for future major facilities were forwarded to GSA for Blaine, Wash.; Laredo, Tex.; B. & M. Bridge, Brownsville, Tex.; Wellesley Island, N.Y.; and Detroit-Canada Tunnel, Detroit, Mich.



*Personnel.*—Employee organizations have increased their competition with each other to organize and to secure exclusive recognition for customs employees. Exclusive recognition was granted in five customs regions during the year. Petitions for exclusive recognition in other regions and districts have resulted in four requests for formal arbitration.

*Incentive awards.*—A total of 1,824 suggestions were received in 1968, of which 457 were adopted. The tangible savings for 1968 totaled \$147,198, and \$17,350 was paid in awards.

There were 141 Superior Work Performance Awards and 119 Special Act or Service Awards during the year.

*Training.*—Customs training during fiscal 1968 was directed toward program improvement and development. Of major significance was the development of an "executive development program" geared to the needs of each customs executive. The Bureau's 12-week course for import specialists was reduced to 8 weeks without loss of effectiveness. It is estimated that savings of \$7,200 per course will accrue from this change.

The Kennedy Round required so many changes that a major revision had to be made to the Inspectors Rate Book, which is also used as a teaching tool in the Bureau's basic inspector training course. All of the rate changes which are expected to occur during the next 4 years are contained in the one book, thus eliminating the necessity for annual revision.

The New York Region II, as a part of its orientation program, prepared letters of welcome for new employees as well as an attractive orientation kit. A reference library of school catalogs and correspondence courses has been established with bulletins issued advising employees that this material is available. Employee development specialists have counseled interested employees.

San Francisco Region established a lending library of some 70 books on management, training, personnel, psychology, and accounting which are available to the many customs employees located at border ports.

The Los Angeles Region has been operating 1-day workshops for supervisors to aid them in personnel management. Twelve training courses were also conducted with over 750 employees attending. In the Boston Region a total of 5,546 man-hours were devoted to training.

*Marine.*—Because of the transfer of certain functions from Customs to Coast Guard, some statutes are to be administered by it and some by Customs. A proposal has been prepared outlining each agency's responsibility.

*Antidumping and countervailing duties.*—The antidumping regulations were rewritten and consolidated into a single part of the Customs regulations. The change was made contemporaneously with amendments to accommodate to the accelerated procedures of the International Anti-Dumping Code which was adopted by the United States on June 30, 1967, and which entered into force July 1, 1968.

An amendment to the Customs regulations (19 CFR 16.24) provides for the issuance of a notice that a countervailing duty procedure is being initiated to determine whether a bounty or grant is being paid or bestowed within the meaning of 19 U.S.C. 1303.

Thirteen dumping complaints were received this fiscal year and 11 cases closed. Nineteen cases remained on hand at the yearend. Five cases were referred to the Tariff Commission and determinations as to injury were pending at the end of the year. One finding of dumping was issued.

Three countervailing duty orders were issued during this fiscal year. They were on canned tomato paste from France; canned tomatoes and canned tomato concentrates from Italy; and welded steel wire mesh from Italy.

*Tariff classification.*—Over 8,400 written replies to inquiries on tariff classification were made. Of these, 435 were of sufficient importance to be published as summaries of Bureau rulings in the "Customs Bulletin." Applications for free entry of 696 scientific instruments and apparatus were processed.

*Regulations.*—During fiscal 1968 major progress was made in preparing the revised Customs regulations necessary to accurately reflect the changes brought about by the President's Reorganization Plan No. 1 of 1965.

*Drawback.*—The total drawback allowance paid during fiscal 1968 amounted to \$48,634,837, as reflected in the Statistical Appendix. Drawback allowance on the exportation of merchandise manufactured from imported materials amounts to 99 percent of the customs duties paid at the time the goods are entered.

Among the more significant actions in the drawback field was a decision by the Bureau that the launching of a communications satellite into orbit in outer space constitutes an exportation entitling drawback payment on the satellite. Thus drawback, which reportedly had its origin in the reign of Louis XIV of France (1661–1715) may be said to have entered the space age.

A customs committee has been working on plans to accelerate payment of drawback claims. A notice was published in the "Federal Register" proposing to amend the drawback regulations to permit the payment of drawback claimed on the basis of estimated duties and to eliminate the certificate of importation from the drawback program.

*Protests.*—Protests filed by importers against the rate and amount of duty assessed and appeals for reappraisal filed by importers who did not agree with the customs officers on the value of merchandise are shown in the following table.

Protests and appeals	1967	1968	Percentage increase, or decrease (—)
<b>Protests:</b>			
Filed with district directors by importers (formal) .....	68,260	86,419	26.6
Filed with district directors by importers (informal) .....	78,189	110,913	41.9
Appeals for reappraisal filed with district directors .....	23,907	21,010	—12.1

*Penalties.*—Decisions were made on 938 penalty cases in 1968. A total of \$102,639 was paid to 57 informers for a recovery of \$542,819.08 to the Government. The amount of penalties assessed totaled nearly \$68.5 million.

*Penalty cases, fiscal year 1968*

Type of case	Number	Full statutory liability of violators
Penalty and forfeiture .....	749	\$64,742,841
Liquidated damages .....	189	3,727,570
Total .....	938	68,470,411

*Net liability imposed by penalty decisions, 1967 and 1968*

Type of case	1967	1968
Penalty and forfeiture cases .....	\$3,800,798	\$3,110,828
Liquidated damages .....	201,349	149,249
Total .....	4,002,147	3,260,077

*Restricted merchandise.*—About 2,150 cases pertaining to a variety of import restrictions, prohibitions, or controls were received and handled. These included country of origin markings and labeling; use of foreign convict labor; trademarks, copyrights and patents; obscenity matters, contraceptive devices, and lottery and seditious materials; birds and plumage or eggs, and wild animals; switchblade knives; Federal and State liquor laws; and technical matters arising under the International Coffee Agreement.

A total of 150 trademarks, trade names (renewals and assignments) and 44 copyrights were recorded. Fifteen patent import surveys were initiated or renewed.

In litigation the U.S. Supreme Court in effect sustained the judicial decision in lower courts which held inadmissible imported knives which by manipulation can be made to open automatically through insignificant alterations, as the evidence demonstrated that a primary purpose was for use as a weapon.

*Entrance and clearance of vessels.*—The following table compares entrances and clearances of vessels for fiscal years 1967 and 1968.

Vessel movements	1967	1968	Percentage decrease (—)
Entrances:			
Direct from foreign ports .....	51,189	50,412	—1.5
Via other domestic ports .....	42,880	41,121	—4.1
Total .....	94,069	91,533	—2.7
Clearances:			
Direct to foreign ports .....	49,737	49,199	—1.1
Via other domestic ports .....	43,476	40,402	—7.1
Total .....	93,213	89,601	—3.9

*Management analysis.*—A complete analysis was made of the reporting practices of the Bureau of Customs. Determinations were made as to origin and destination of the reports, content, authority, et cetera. It was found there were 557 reporting forms, leading to 309,357 report



preparations. Nineteen reports had been eliminated by the fiscal year-end.

Emergency Planning Manual, Part I, was completely revised and issued to employees.

Management analysis program guidelines were prepared and issued to the field.

Three regional surveys were made.

*Containerization.*—Public Law 89-194, approved September 21, 1965, permitted vessels of countries which granted reciprocal privileges to vessels of the United States to transport empty cargo vans and shipping tanks between U.S. ports, under certain circumstances. During the year, the Customs Regulations were amended to provide that vessels of Ireland, Polish People's Republic, and France may transport such cargo vans and tanks between U.S. ports.

General guidelines were issued covering the entry, clearance and coastwise laws for Lash-type vessel operations. These vessels would carry smaller barges in foreign trade loaded with cargo to be delivered from or to the Lash vessels.

In connection with the entry, movement, and use of containers in the United States as instruments of international traffic, guidelines were established to assure compliance with the applicable laws and regulations. The extent to which containers in international traffic might be controlled and used in the United States under applicable law was also studied in connection with programs of international organizations to facilitate the use of containers in all countries.

In the New York Region not only has the volume of cargo moving in containers increased and become a significant aspect of their operations, but during 1968 over 40 new vessels or newly redesigned vessels for transportation of containerized cargo arrived at the port of New York, including Newark, N.J. In the Los Angeles district there was a 30-percent increase in containerized cargo. An entirely new and modern container terminal has been built and another modernized at the port of Norfolk, Va. The port of Baltimore has three bonded container stations in operation. A new terminal has been put into operation at Philadelphia. Two inspectors have been assigned exclusively to container stations in San Francisco and additional assignments were planned for early in fiscal 1969, when major container facilities become operational. A regional container committee is represented at industry meetings.

The Bureau of Customs has undertaken various programs aimed at coordination of customs responsibilities with the goal of containerization. The movement of containers has been the subject of continuing conferences between the U.S. Customs Service and the Customs services of other countries. A continuing study is underway in anticipation of changes in present procedures to meet the impact of containerization.

*Appraisalment and collections.*—The entry form which, among other important benefits, will consolidate 21 existing forms, has been sent to the field for evaluation and study. The monthly entry form is also under study.

*Mail operations.*—The completion of the initial phase of the consolidation last year has led to the planning for improving existing mail facilities in order to more efficiently meet the goals of mail proc-



essing at the port of first arrival. Plans underway jointly with the Post Office Department are well established for new facilities at various sites throughout the country. Preliminary planning has been undertaken at Atlanta and Dallas. Initial planning has also been accomplished for new airport mail facilities at Dallas and the Seattle-Tacoma Airport.

Construction was well underway at the end of fiscal 1968 for two new major mail processing facilities, the new Morgan Annex located in midtown Manhattan and the other at Kennedy Airport. Both units will utilize the most sophisticated mechanized mail handling and sortation equipment. A new surface mail facility at Oakland was under construction at the fiscal yearend and the new airport facility at Los Angeles was to open shortly.

A mechanized parcel handling system was installed at Washington, D.C., and the updating of the mechanized system at Chicago is in process.

During fiscal 1968, the number of foreign mail parcels rose 1.9 percent from 55,052,498 to 56,126,729. The addition of 72 positions in the mail divisions during the year helped to raise the number of mail entries written from 1,549,231 to 1,855,550, or 19.7 percent.

*Commodity specialization.*—One of the most significant features of the 1965 reorganization was the introduction of commodity specialization which unified the chain of command for the clearance and assessment of duties on imported merchandise. During fiscal 1968 an appraisement task force produced "Fundamentals of Duty Assessment," an excellent manual of instruction for import specialists. Based on this new text, a full-time 8-week program of instruction has been completed.

The Bureau participates in international and interagency affairs as the Government's representative in the cotton textile arrangement. It collects information, meets with other agencies, supplies written rulings, establishes and coordinates import controls, takes steps to prevent transshipment of restrained textiles, and has established a special procedure to identify differences of opinion regarding the classification of cotton textile imports from Hong Kong.

With respect to imported motor vehicles, the Bureau is responsible for the administration of the Motor Vehicle Air Pollution Control Act and the National Traffic and Motor Vehicle Safety Act. Regulations were coordinated with the Department of Health, Education, and Welfare, the Department of Transportation, and other offices of the Department of the Treasury prior to the issuance of instructions to the field of new standards governing such vehicles.

The Canadian Query Program is designed to assist Canadian firms to arrive at a better understanding of U.S. Customs laws. During 1968, a total of 36 inquiries were processed.

The continuing embargo on all goods of Cuban origin was the basis for special procedures regarding tobacco and tobacco products. A total of 23,831 special samplings of tobacco and 1,069 of cigars suspected of being made in Cuba were handled in 1968.

*Quotas.*—During the year 110 absolute and tariff-rate quotas were administered, under specific Presidential proclamation and legislation. Two quotas were imposed under the International Coffee Agree-

ment Act of 1965; five under the Philippine Trade Agreement Act of 1955, and 158 involving 16 foreign countries imposed under the Long-Term Cotton Textile Arrangement. Presidential Proclamation 3856, dated June 10, 1968, resulted in the establishment of 10 absolute quotas on milk and cream, condensed or evaporated, administered on a country allocation system.

*Fibers administration.*—In striving for uniformity in identification, grade, and conditions of wool imports, 9,076 reports were analyzed during the year. Samples of wool submitted for an opinion as to identity, condition, grade, and yield totaled 612. There were 462 samples of manmade fibers and waste samples, plus samples of wool wastes, examined for opinions on identity, advisory classification and quota status. In addition, a total of 34 raw cashmere and raw camel hair samples were received from official government agencies in the United Kingdom and Belgium.

Customs districts are advised on the classification of those products processed from duty-free wool under the Tariff Schedules.

*Backlogs of entries and invoices.*—Total invoices received during 1968 increased 5.5 percent from 3,981,806<sup>\*</sup> to 4,201,102. During this period the backlog of invoices on hand increased 21.6 percent from 317,935 to 386,495 due in part to the increased workload and in part to personnel shortages resulting from year-long budgetary restrictions. Increases in the backlog occurred in all regions except Miami and New Orleans.

The backlog of unliquidated entries continued to be reduced during 1968. The overall percentage decrease was 3.2 percent with the largest decline occurring in Region IV, Miami. The 1967 backlog was 935,076 and the 1968 backlog 904,987. A total of 2,398,175 entries were filed.

*Customs Information Exchange.*—There were 2,209 catalogs, price lists, and other value data of foreign manufacturers and shippers received, reproduced and disseminated by the C.I.E. during the period under review. A total of 172 foreign and local inquiry reports were processed. Two hundred ninety-two advance reports were received from various import specialists.

Also, there were 861 reports of value changes sent to district directors of ports where similar shipments were received.

*Export control.*—Export control procedures were reviewed. The monthly export declaration previously applicable only to the motor companies in the port of Detroit was expanded to all ports on the Canadian border. Studies are being made to establish methods to make this system available to other exporters.

The Bureau of Customs participated with the Bureau of Census and the Office of Export Control in a project which resulted in the elimination of the requirement for filing shipper's export declarations for shipments valued at less than \$100.

*Laboratories.*—A total of 160,315 samples were analyzed by the laboratories in 1968 compared to 143,577 in 1967. There were 21,368 samples taken from customs seizures, mostly narcotic drugs and other

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<sup>\*</sup> Revised.

prohibited articles; 130 samples of new types of merchandise analyzed to develop facts on which to base tariff classifications; and 14,027 samples tested on behalf of other Government agencies.

During 1968 customs chemists spent 2,686 man-hours in court testifying as expert witnesses in cases where their testimony was required to present technical facts needed by the Government. The majority of their time was spent on narcotic cases.

The policy of equipping laboratories with advanced analytical instruments continued during 1968. Among the major items acquired were: X-ray spectrograph; ultraviolet spectrophotometer; infrared spectrophotometer; emission spectrograph with accessories; gas chromatograph with accessories; ultraviolet-visible spectrophotometer; and an electrolytic analyzer.

Work continued on methods to analyze multicomponent blends of textile fibers; and improved methods of fluor spar analysis are also under development.

Tentative approval was granted for the use of a 20,000-pound capacity tank scale of the Sazerac Co., Inc., New Orleans, La., for determining the dutiable quantities of distilled spirits.

*International conferences.*—Customs Bureau officials represented the United States as delegates or observers at meetings of the Permanent Technical Committee of the Customs Cooperation Council at Brussels, Belgium; the Inland Transport Committee and its subsidiary organs of the Economic Commission for Europe at Geneva; and the Working Group on Facilitation of the Intergovernmental Maritime Consultative Organization. Documentation was drafted for presentation to the Seventh Session of the Facilitation Division of the International Civil Aviation Organization held at Montreal.

*Improved service to the public.*—In keeping with the administration's policy of improving service to the traveling public and making foreign visitors feel welcome, the four inspectional agencies, Customs, Public Health Service, Immigration and Naturalization, and the U.S. Department of Agriculture, jointly initiated a "One-Stop" inspection system, at the country's number one air gateway—the John F. Kennedy International Airport at New York, and at San Antonio, Tex., early in June.

The system, proposed after a study by a special port of entry task force representing the four agencies, was designed to cope with the sharp rise in international travel occasioned by the oncoming use of "jumbo jet" aircraft. It provides for examination by a single officer for the four inspectional agencies and is backed by necessary monitoring and secondary operations by specialists from each agency.

President Johnson praised the system and announced that the clearance time for the average passenger arriving at Kennedy International has been reduced from 45 minutes to 15 minutes.

Besides speeding up clearance procedures, the new system has resulted in better enforcement especially by Customs and Agriculture.

More rapid handling of merchandise and more prompt release of shipments to importers were achieved throughout the Customs Service during fiscal 1968.



The headquarters office of the Alaska district was moved from Juneau to Anchorage in order to facilitate work in that district. Studies were made that led to the establishment of Washington, D.C., as a separate district on July 1, 1968.

*Public information.*—The increasing demands on the Customs Service to process people and merchandise were reflected in the need for an intensified and somewhat expanded information program. The major themes emphasized were that the Bureau is adapting its organizational structure to make it more responsive to the needs of the people; that customs laws require voluntary compliance; and that customs is cooperating in making foreign visitors feel welcome.

During the year thousands of inquiries received from the public by phone or by mail were satisfied. Queries from writers, editors, radio and TV commentators, and authors of books and magazine articles were handled with the assistance of technical specialists at the Bureau and in the field. An occupational brief on "Customs Workers" was prepared for Science Research Associates.

The Bureau issued a new edition of "U.S. Customs & You," designed especially for students studying government, which received wide distribution in schools throughout the country. A booklet, "The Customs Story," designed for adults interested in customs was also produced.

New publications included a Chinese language edition of "Customs Hints for Nonresidents;" a Spanish language edition of "Customs Hints for Returning Residents" (abbreviated); "Import Quotas;" and a folder "Why Your Import Is Detained!"

A poster on the dangers of importing harmful pests in fruit and meat was suggested by a customs inspector, and the Department of Agriculture prepared the poster, which was distributed throughout the Customs Service.

"Customs Today" was issued regularly to all customs employees; and a sampling of news items about customs was sent to all offices via "Press Digest."

### **Investigative activities**

The Customs Agency Service is the primary enforcement arm of the Bureau. During fiscal 1968 extensive improvements and modernization were made in its radio communication system. A radio "link" system was designed and equipment purchased for the Southern California area which will provide two-way communications among and between official vehicles and offices in Calexico, San Ysidro, San Diego, and Los Angeles. A complete radio system was established in Corpus Christi, Tex. A 23-foot motorboat seized in Miami was forfeited to the Government and assigned to the office of the customs agent-in-charge, Corpus Christi, Tex., for official use. The Miami, Fla., office acquired a 40-foot boat which was assigned for official use to San Juan, P.R.

A German shepherd dog trained to detect the odor of marihuana was used on an experimental basis along the Mexican border. The dog proved effective in detecting marihuana in automobiles and in mail packages, and a number of seizures were made with his assistance.



*Arrests.*—The following table shows the number of arrests and dispositions during the last 2 fiscal years.

Activity	Fiscal years		Percentage increase, or decrease (—)
	1967	1968	
Persons under or awaiting indictment at beginning of year.....	1,382	1,887	36.5
Arrests.....	3,374	4,343	28.7
Turned over to other agencies.....	1,009	1,164	15.4
Prosecutions declined.....	464	596	28.4
Not indicted.....	12	11	—8.3
Convictions.....	1,137	1,316	15.7
Dismissals and acquittals.....	179	346	93.3
Nolle prossed.....	78	157	101.3
Persons under or awaiting indictment at end of year.....	1,877	2,640	40.6

*Cases investigated.*—The number and types of cases investigated under customs, navigation, and related laws enforced by Customs increased 3.7 percent over fiscal year 1967, from 26,993 cases to 27,989, as shown in the Statistical Appendix.

*Seizures, general.*—There were 28,566 seizures made during the year, excluding narcotics and marihuana.

*Seizures, narcotics and marihuana.*—An alltime record in seizures of heroin, cocaine, and marihuana was established in fiscal 1968. The amount of heroin seized was up 215 percent over 1967, cocaine was up 143 percent, and marihuana at over 35 tons represented an increase of 166 percent.

In achieving these results customs agents conducted 9,226 narcotic investigations, 1,980 more than last year. Arrests increased from 3,374 to 4,343, an increase of 969. There were 179 more convictions, up from 1,137 to 1,316. The majority were along the Mexican border in the Houston, Tex., and Los Angeles, Calif., regions.

The following table gives the details of narcotic and marihuana seizures.

Seizures	Fiscal years		Percentage increase, or decrease (—)
	1967	1968	
Narcotic drugs (weight in grams):			
Heroin.....	35,323	111,741	216.3
Number of seizures.....	225	265	17.8
Raw opium.....	2,036	1,043	—48.8
Number of seizures.....	9	6	—33.3
Smoking opium.....	2,400	5,496	129.0
Number of seizures.....	7	15	114.3
Others.....	18,304	44,325	142.2
Number of seizures.....	291	259	—11.0
Marihuana:			
Bulk (grams).....	11,935,431	31,847,395	166.8
Number of seizures.....	1,081	2,010	85.9
Cigarettes (number).....	1,829	20,802	1,037.4
Number of seizures.....	334	440	31.7

*Dangerous drugs.*—Fiscal 1968 was the first year that uniform statistics were maintained for seizures of dangerous drugs. Quantities are expressed in five-grain units, and no attempt has been made to differentiate between stimulants consisting principally of amphetamines and depressants, the barbiturates, tranquilizers, etc. During the year 525 seizures were made, comprising 3,936,800 units, most of which were made on the Mexican border.

*Seizures, merchandise.*—Customs seizures for various violations of customs laws by number and value are shown in the Statistical Appendix.

### Foreign trade zones

Customs duties and internal revenue taxes collected during fiscal 1968 in the nine zones in operation amounted to \$12,505,862.

The boundaries of Foreign Trade Zone No. 9 at Honolulu, Hawaii, occupying an area of approximately 82,571 square feet on pier 39, have been expanded to include an additional 23,060 square feet of covered space contiguous to the primary zone.

The following table summarizes foreign trade zone operations during fiscal 1968.

Trade zone	Number of entries	Received in zone		Delivered from zone		Duties and internal revenue taxes collected
		Long tons	Value	Long tons	Value	
New York.....	4,261	22,175	\$37,039,602	22,638	\$37,162,874	\$5,885,741
New Orleans.....	5,081	27,688	24,590,382	25,375	26,942,406	2,509,266
San Francisco.....	908	4,156	6,684,032	4,553	7,755,934	467,596
San Francisco (subzone).....	427	95	392,076	75	449,237	131,780
Seattle.....	594	1,240	2,055,557	970	1,914,205	177,810
Mayaguez.....	574	526	898,607	655	1,793,333	117,369
Penuelas (subzone).....	18	368,552	6,364,839	232,986	11,122,748	212,555
Toledo.....	173	26,749	12,090,307	28,084	12,644,206	2,816,685
Honolulu.....	1,878	5,144	3,754,079	4,840	2,525,145	187,060

### Cost of administration

Customs operating expenses amounted to \$93,952,853, including export control expenses and the cost of additional inspection reimbursed by the Department of Agriculture.

The following table shows man-year employment data in the fiscal years 1967 and 1968.

Operation	Man-years 1967	Man-years 1968	Percentage increase, or decrease (—)
Regular customs operations:			
Nonreimbursable.....	8,093	8,103	0.1
Reimbursable <sup>1</sup> .....	408	432	5.9
Total regular customs employment.....	8,501	8,535	.4
Export control.....	226	220	-2.7
Additional inspection for Department of Agriculture.....	262	271	3.4
Total employment.....	8,989	9,026	.4

<sup>1</sup> Salaries reimbursed to the Government by the private firms who received the exclusive services of these employees.

### Office of Director of Practice

The Office of the Director of Practice is a part of the Office of the Secretary of the Treasury and is under the immediate supervision of the General Counsel. Pursuant to the provisions in Treasury Department Circular No. 230 (31 CFR, Pt. 10), the Director of Practice institutes and provides for the conduct of disciplinary proceed-

ings against attorneys, certified public accountants, and enrolled agents who are alleged to have engaged in disreputable conduct or who are alleged to have violated the rules and regulations regarding practice before the Internal Revenue Service. The Director of Practice also exercises jurisdiction, as the first level of administrative appeal, in those cases where the Commissioner of Internal Revenue denies an application for enrollment to practice before the Internal Revenue Service made by persons seeking enrollment pursuant to section 10.4 of Circular 230.

On July 1, 1967, there were 78 cases pending in the Office under active review and evaluation, two of which were awaiting presentation before a hearing examiner. During the fiscal year, 117 new derogatory information cases were received. Disciplinary action was taken in 44 cases, either by the Office or by order of a hearing examiner. These 44 actions consisted of one order of disbarment, 20 suspensions, 19 reprimands, and four instances where resignations were accepted from enrolled agents to terminate their eligibility to practice before the Internal Revenue Service. The 44 actions affected eight attorneys, 23 certified public accountants, and 13 enrolled agents.

Seven proceedings for disbarment or suspension were initiated before a hearing examiner during fiscal 1968. Including the two cases remaining on the examiner's docket from the previous fiscal year, there were nine cases before the examiner during fiscal 1968. Decisions were rendered in five of these cases. In one case heard involving a certified public accountant the examiner issued an initial order for disbarment. In the remaining cases heard, the examiner issued initial orders for suspension from practice before the Internal Revenue Service. In one case a motion by the Director of Practice to dismiss the proceeding was granted by the examiner. As of June 30, 1968, three cases were pending on the examiner's docket, one of which had been heard by the examiner and was awaiting decision at the end of fiscal 1968. As of June 30, 1968, 50 derogatory information cases were pending under active review and evaluation in the Office.

During the fiscal year one applicant appealed to the Director of Practice the denial of his application for enrollment by the Commissioner of Internal Revenue. The decision on appeal was pending as of June 30, 1968.

### **Office of Domestic Gold and Silver Operations**

The Office of Domestic Gold and Silver Operations, in the Office of the Under Secretary for Monetary Affairs, assists the Under Secretary in the formulation, execution, and coordination of policies and programs relating to gold and silver in both their monetary and commercial aspects. The Office administers the Treasury Department gold regulations relating to the purchase, sale, and control of industrial gold, gold coin, and gold certificates; issues licenses and other authorizations for the use, import and export of gold, and for the importation and exportation of gold coin; receives and examines reports of operations; investigates and supervises the activities of users of gold; and administers the silver coin regulations relating to the melting, treating, and export of silver coins of the United States. Investigations into



possible violations of the gold regulations and the silver coin regulations are coordinated with the U.S. Secret Service, the Bureau of Customs, and other enforcement agencies.

### Gold

*Purchases of gold for industrial use from the Treasury.*—The gross sales of gold, not including scrap gold exchanges or deposits, for industrial use by the Treasury increased in the calendar year 1967 to 6,294,000 fine troy ounces, as compared to 5,585,000 fine troy ounces in calendar year 1966, 4,691,000 fine troy ounces in calendar year 1965, and 3,665,000 fine troy ounces in calendar year 1964. The increase in sales by the Treasury in calendar year 1967 was largely due to the smelters and refiners strike during the last half of 1967 when the Treasury was virtually the only domestic source of gold for industrial use.

Sales of gold by the Treasury for industrial use and purchases from the private market were terminated on March 18, 1968, pursuant to the Communiqué issued on March 17 by the Governors of the Central Banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States.<sup>1</sup>

*Gold coin licensing.*—The number of gold coins licensed by the Treasury decreased in the calendar year 1967 to 4,313 gold coins, as compared with 8,633 gold coins licensed in the calendar year 1966. The decrease in the number of gold coins licensed reflects the fact that 1966 was the last year in which licenses were issued for the importation of South African gold coins. The number of gold coins licensed in the first half of calendar year 1968 increased to 10,513 gold coins.

*Licensing of gold dealers.*—In order to encourage the establishment of a private trading function in the market to bridge the gap between industrial users of gold and producers and sellers of gold following the termination of Treasury dealings in the private market on March 18, 1968, the Office of Domestic Gold and Silver Operations issued licenses to banks and commodity firms which because of resources, past business experience and strategic location were in a position to perform this service. From March 18, 1968, until the end of the fiscal year, the Office issued 22 such licenses.

*End uses of gold.*—End-use certificates with detailed information concerning the end use of gold continued to be required through the calendar year 1967. The estimated allocation by industrial use for 1967 is shown in the table below.

*Estimated industrial use of gold in the United States in calendar year 1967*

	Fine ounces	Dollars, based on \$35 per ounce	Percent
Jewelry and arts. ....	3,840,000	134,400,000	61
Dental. ....	566,000	19,810,000	9
Industrial, including space and defense. ....	1,888,000	66,080,000	30
Total. ....	6,294,000	220,290,000	100

<sup>1</sup> See exhibit 66.



## Silver

On July 14, 1967, silver sales to domestic industrial users at \$1.29 per fine troy ounce were suspended by the Treasury.<sup>1</sup> Since then Treasury silver has been sold for domestic industrial use at going market rates on the basis of competitive sealed bids at a rate not exceeding 2 million ounces a week. Such sales have been conducted by GSA as agent for the Treasury.<sup>2</sup> Through June 30, 1968, 98 million ounces of silver were sold in this manner at a profit to the Government of \$55,145,000. On June 24, 1968, pursuant to Public Law 90-29 approved June 24, 1967, the right of holders of silver certificates to redeem them for silver came to an end, thus freeing all remaining Treasury silver for other uses. On June 25, 1968, 165 million ounces of silver was transferred to the National Defense Stockpile as required by Public Law 90-29.<sup>3</sup> All of this silver was 0.999 fine. Treasury silver holdings at the end of the fiscal year, including the silver in coin inventories, amounted to approximately 300 million fine troy ounces.

## Bureau of Engraving and Printing

The Bureau of Engraving and Printing is responsible for manufacturing U.S. paper currency, various public debt instruments, and most other evidences of a financial character issued by the Government, such as postage and internal revenue stamps, food coupons, and military payment certificates. In addition, the Bureau prints commissions, certificates of awards, permits, and a wide variety of other miscellaneous items. The Bureau also executes certain printings for various territories administered by the United States.

On October 8, 1967, Mr. Henry J. Holtzclaw retired as Director, after 50 years of dedicated service in the Bureau. By Treasury Order No. 210,<sup>4</sup> Mr. James A. Conlon was designated Director, effective October 9, 1967. Under the new directorship, the Bureau has continued to pursue the vigorous technological improvement program initiated earlier and has introduced new studies and innovations designed to increase the efficiency and economy of its administrative and production operations.

### Management attainments

Among significant actions was a major reorganization, effected on February 15, 1968. All Bureau programs were grouped, functionally, under eight staff offices, each office being headed by a chief responsible to the Director for the direction of assigned activities. Office titles are: Administrative Services, Engineering, Engraving, Financial Management, Industrial Relations, Manufacturing, Research and Technical Services, and Security and Audit.

Responsibility for custody of unissued Federal Reserve notes, formerly exercised jointly by the Comptroller of the Currency and the

<sup>1</sup> See exhibit 64.

<sup>2</sup> See exhibit 65.

<sup>3</sup> See 1967 annual report, p. 400.

<sup>4</sup> See exhibit 69.

Treasurer of the United States, was transferred to the Bureau, effective April 19, 1968.<sup>1</sup> As a means of insuring proper coordination and integration of this function with Bureau policies and methods, a management survey of the operations in the Federal Reserve Vault has been initiated.

On April 17, 1968, the Bureau completed the program of converting the printing of currency by the dry-print method to its high-speed intaglio printing presses, thereby ending production of currency by the old, wet process. It is conservatively estimated that additional annual savings, representing 29 direct-labor man-years with a related cost savings of \$250,000, were realized from this project in 1968. Currency production in fiscal 1968 exceeded that of 1967 by 120,920,000 notes, and the low unit cost rate of \$8.14 per thousand notes achieved in 1967 was maintained, despite an overall rise in the cost of operations brought about, primarily, by increases in the cost of labor and materials.

The production of postage stamps comprises the Bureau's second major work program. During the 3-month period from December 1967 through February 1968, the Bureau successfully met the unprecedented demands for postage stamps resulting from the increase in postal rates which became effective January 7, 1968. Approximately 7,200 million stamps were delivered during the first month the increased rate was in effect. This represented 20 percent of the total number of postage stamps delivered in the entire fiscal year.

The Bureau realized annual savings estimated at 3 man-years and \$20,000 in fiscal 1968 by correcting technical difficulties that were experienced in the conversion of the printing of Treasury bills to the dry intaglio process on high-speed rotary presses, a program reported in 1967. Having completed the conversion in the method of printing Treasury bills, the Bureau focused attention on converting the printing of the 10-coupon and 14-coupon Treasury notes from the wet to the dry method. Based on the number of notes printed by the new method, an annual savings of \$88,000, representing 11 man-years, was realized in fiscal 1968. The balance of the estimated annual savings of \$140,000, or \$52,000, is anticipated in fiscal 1969.

Through the continuance of certain management actions initiated and reported last year, the Bureau realized in fiscal 1968 additional savings of \$10,000 from the revised procedure for manufacturing the green ink used in printing currency backs and annual savings of \$11,000 from research and engineering work leading to changed criteria for the acceptability of phosphor-tagged postage stamps.

Savings of 1 man-year and \$5,000 were realized from the installation of "self-ink" numbering blocks on three currency overprinting presses, which release the pressmen from a great deal of makeready time previously required for inking in the numbering blocks. Additional savings are anticipated from this project, inasmuch as it is

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<sup>1</sup> See exhibit 69.

planned to continue the installations until 13 presses are so equipped.

As a result of an industrial engineering study, annual savings of 2 man-years and \$16,000 were realized from changes made in coil stamp boxing operations.

Continuing the special expenditure reduction efforts directed by the President in 1966, the Bureau realized annual recurring savings of 2 man-years and \$11,000 and one-time savings of \$211,000 in fiscal 1968. Full utilization was made of the Federal excess property program in fulfilling procurement needs.

Estimated annual recurring savings representing 7 man-years and \$85,000 and one-time savings of \$4,000 will accrue to the Bureau as a result of suggestions adopted in fiscal 1968. Also, it is estimated that one-time savings of \$65,000 and 11 man-years were realized in fiscal 1968 through the sustained superior work performance phase of the incentives awards program.

In the interest of maintaining efficient and economical operations, the Bureau has carried on intensive research, engineering, and development activities and a continuing program of production and quality control studies. During fiscal 1968, 59 reports of audit, containing 83 recommendations for consideration by various levels of management, were released by the Bureau's internal auditors. Actions taken during the fiscal year resulted in the clearing or dropping of 101 recommendations. There were 19 recommendations outstanding at the end of the year.

Constant attention has been focused throughout the year on improving communications and services to the public. A reevaluation was made of policies and procedures relative to the Bureau's activities in response to requests received for numismatic and philatelic exhibits and displays. Efforts have been directed toward giving maximum cooperation in honoring requests, and, at the same time, providing adequate security for products exhibited and economical costs in operations. The Bureau participated in a number of shows during the year, providing display frames, photographs of Bureau operations, and miscellaneous exhibit engravings. Bureau representatives were present at shows to answer questions regarding the Bureau and its activities and to distribute selected pamphlets and other descriptive handouts. This participation has been enthusiastically received and has resulted in very favorable news media coverage.

During the year, 541,446 visitors took the self-guided tour to view Bureau operations. Cards are provided at the end of the tour, asking visitors for comments or suggestions to improve the tour. As another point of interest, display frames have been erected on the visitors' gallery to exhibit samples of the portraits, seals, and other prints produced by the Bureau and available for sale to the public.

Various programs have been undertaken in the interest of improv-



ing employee-management relations. Significant among these was a total revamping of the noncraft, nonsupervisory, Wage Board promotion policy, which provided realistic standards, broader areas of opportunity, and a system more responsive to staffing needs at operating levels. Another action contributing to improved employee relations is the periodic issuance of an "Employees' Newsletter." The initial issue distributed on October 19, 1967, marked the beginning of a program which emphasizes improved internal employee communications. To promote the equal employment opportunity program, a series of seminars was initiated for all Bureau supervisory personnel so that they might exchange views and recommend improvements in the program. Employee Equal Employment Opportunity Committees have been formed to develop a climate of understanding and a positive means of communication between management and employees. This active, continuing program has been most effective.

Significant progress is reported in the area of craft training opportunities. On the basis of anticipated manpower needs for journeyman craftsmen, there have been established trainee or apprenticeship programs in 16 distinct craft categories. At the close of fiscal 1968, 11 of 30 trainees had been promoted to journeyman status in the plate printer craft.

The Bureau engages primarily in on-the-job training to meet staffing needs. It uses both interagency and non-Government sources as a means of keeping employees abreast of technological advances and maintaining proficiency in specialization. In fiscal 1968, 98 employees completed Bureau or departmental training; 51 employees completed interagency training courses; and 84 employees attended specialized conferences, seminars, or training classes sponsored by non-Government organizations.

Total estimated savings from cost reduction and management improvement efforts during fiscal 1968 approximate \$496,000 on a recurring annual basis and \$280,000 on a one-time basis. All savings realized are applied against the cost of products produced and are reflected in downward adjustments in products costs and passed on to customer agencies.

#### **New issues of postage stamps and deliveries of finished work**

New issues of postage stamps delivered by the Bureau in fiscal 1968 are shown in the Statistical Appendix. A comparative statement of deliveries of finished work for the fiscal years 1967 and 1968 also appears in that volume.

#### **Finances**

Bureau operations are financed by reimbursements to the Bureau of Engraving and Printing fund, as authorized by law. Comparative financial statements follow.



*Statement of financial condition June 30, 1967 and 1968*

	Assets	June 30, 1967	June 30, 1968
<b>Current assets:</b>			
Cash with the Treasury .....		\$5,540,167	\$4,279,538
Accounts receivable .....		2,042,903	3,848,078
Inventories: <sup>1</sup>			
Finished goods .....		2,108,080	2,039,725
Work in process .....		3,813,874	3,211,502
Raw materials .....		1,260,832	1,475,126
Stores .....		1,215,127	1,211,096
Prepaid expenses .....		157,317	131,705
Total current assets .....		16,138,300	16,196,770
<b>Fixed assets: <sup>2</sup></b>			
Plant machinery and equipment .....		22,400,970	22,053,504
Motor vehicles .....		160,744	160,744
Office machines .....		276,905	313,874
Furniture and fixtures .....		459,933	484,681
Dies, rolls, and plates .....		3,955,961	3,955,961
Building appurtenances .....		3,399,562	3,449,951
Fixed assets under construction .....		41,472	203,630
		30,695,547	30,621,845
Less accumulated depreciation .....		15,923,659	16,548,234
		14,771,888	14,073,611
Excess fixed assets (written down to 30% of book value) .....		4,343	8,051
Total fixed assets .....		14,776,231	14,081,662
Deferred charges .....		85,523	89,117
Total assets .....		31,000,054	30,367,549
<b>Liabilities and investment of the United States</b>			
<b>Liabilities:</b>			
Accounts payable .....		1,816,017	564,312
Accrued liabilities:			
Payroll .....		931,510	1,094,515
Accrued leave .....		1,861,391	2,041,457
Other .....		160,748	177,340
Trust and deposit liabilities .....		1,155,462	1,367,399
Other liabilities .....		343	307
Total liabilities <sup>3</sup> .....		5,925,471	5,245,330
<b>Investment of the U.S. Government:</b>			
Appropriation from U.S. Treasury .....		3,250,000	3,250,000
Donated assets, net .....		22,000,930	22,000,930
		25,250,930	25,250,930
Accumulated earnings, or deficit (—) <sup>4</sup> .....		—176,347	—128,711
Total investment of the U.S. Government .....		25,074,583	25,122,219
Total liabilities and investment of the U.S. Government .....		31,000,054	30,367,549

<sup>1</sup> Finished goods and work in process inventories are valued at cost, including administrative and service overhead. Except for the distinctive paper which is valued at the acquisition cost, raw materials and stores inventories are valued at the average cost of the materials and supplies on hand.

<sup>2</sup> Plant machinery and equipment, furniture and fixtures, office machines, and motor vehicles acquired on or before June 30, 1950, are stated at appraised values. Additions since June 30, 1950, and all building appurtenances are valued at acquisition cost. The act of Aug. 4, 1950 (31 U.S.C. 181a), which established the Bureau of Engraving and Printing fund, specifically excluded land and buildings valued at about \$9,000,000 from the assets of the fund. Also excluded are appropriated funds of about \$6,784,000 expended or transferred to GSA for extraordinary expenses in connection with uncanceled building repairs and air conditioning. As of June 30, 1968, fixed assets included \$7,405,034 of fully depreciated items, principally plant machinery and equipment and building appurtenances. Dies, rolls, and plates were capitalized at July 1, 1951, on the basis of average unit costs of manufacture, reduced to recognize their estimated useful life. Since July 1, 1951, all costs of dies, rolls, and plates have been charged to operations in the year acquired.

<sup>3</sup> In addition, outstanding commitments with suppliers for unperformed contracts and undelivered purchase orders totaled \$6,393,232 as of June 30, 1968, as compared with \$6,330,312 at June 30, 1967.

<sup>4</sup> The act of Aug. 4, 1950, provided that customer agencies make payment to the Bureau at prices deemed adequate to recover all costs incidental to performing work or services requisitioned. Any surplus accruing to the fund in any fiscal year is to be paid into the general fund of the Treasury as miscellaneous receipts except that any surplus is applied first to restore any impairment of capital by reason of variations between prices charged and actual costs.

*Statement of income and expense, fiscal years 1967 and 1968*

Income and expense	1967	1968
Operating revenue: Sales of engraving and printing .....	\$33,540,752	\$39,221,724
Operating costs:		
Cost of sales:		
Direct labor .....	13,919,731	16,016,960
Direct materials used .....	5,601,621	6,037,230
Contract printing (postage stamps) .....		238,261
Prime cost .....	19,521,352	22,292,451
Overhead costs:		
Salaries and indirect labor .....	9,263,233	10,032,220
Factory supplies .....	1,428,698	1,718,343
Repair parts and supplies .....	316,509	410,567
Employer's share personnel benefits .....	1,666,056	1,834,383
Rents, communications and utilities .....	579,145	759,145
Other services .....	455,147	581,200
Depreciation and amortization .....	1,853,258	1,665,276
Gains (-), or losses on disposal or retirement of fixed assets .....	229,384	50,277
Fire loss .....	73,242	
Sundry expense (net) .....	103,050	116,892
Total overhead .....	15,967,722	17,168,303
Total costs <sup>1</sup> .....	35,489,074	39,460,754
Less:		
Nonproduction costs:		
Shop costs capitalized .....	150,381	314,804
Cost of miscellaneous services rendered other agencies .....	570,064	642,589
	720,445	957,393
Cost of production .....	34,768,629	38,503,361
Net increase (-), or decrease in finished goods and work in process inventories from operations .....	-1,126,366	670,727
Cost of sales .....	33,642,263	39,174,088
Operating profit or loss (-) .....	-101,511	47,636
Nonoperating revenue:		
Operation and maintenance of incinerator and space utilized by other agencies .....	496,105	510,941
Other direct charges for miscellaneous services .....	73,959	131,648
	570,064	642,589
Nonoperating costs:		
Cost of miscellaneous services rendered other agencies .....	570,064	642,589
Net profit or loss (-) for the year <sup>2</sup> .....	-101,511	47,636

<sup>1</sup> No amounts are included in the accounts of the fund for (1) interest on the investment of the Government in the Bureau of Engraving and Printing fund, (2) depreciation on the Bureau's buildings excluded from the assets of the fund by the act of Aug. 4, 1950, and (3) certain costs of services performed by other agencies on behalf of the Bureau.

<sup>2</sup> See preceding table, footnote 4.

*Statement of source and application of funds, fiscal years 1967 and 1968*

Funds provided and applied	1967	1968
<b>Funds provided:</b>		
Sales of engraving and printing .....	\$33,540,752	\$39,221,724
Operation and maintenance of incinerator and space utilized by other agencies .....	496,105	510,941
Other direct charges for miscellaneous services .....	73,959	131,648
<b>Total .....</b>	<b>34,110,816</b>	<b>39,864,313</b>
Less cost of sales and services (excluding depreciation and other charges not requiring expenditure of funds: Fiscal year 1967, \$2,082,642; fiscal year 1968, \$1,715,553) .....	32,129,685	38,101,124
<b>Sale of surplus equipment .....</b>	<b>1,981,131</b>	<b>1,763,189</b>
	9,508	6,727
<b>Total funds provided .....</b>	<b>1,990,639</b>	<b>1,769,916</b>
<b>Funds applied:</b>		
Acquisition of fixed assets .....	394,916	962,946
Acquisition of experimental equipment; and plant repairs and alterations to be charged to future operations .....	80,049	68,359
Increase in working capital .....	1,515,674	738,611
<b>Total funds applied .....</b>	<b>1,990,639</b>	<b>1,769,916</b>

**Fiscal Service****BUREAU OF ACCOUNTS**

The functions of the Bureau are Governmentwide in scope. They include central accounting and financial reporting; disbursing for virtually all civilian agencies; supervising the Government's depository system; determining qualifications of insurance companies to do surety business with Government agencies; a variety of fiscal activities such as investment of trust funds, agency borrowings from the Treasury, and international claims and indebtedness; and Treasury staff representation in the joint financial management improvement program.

**Management improvement**

Under the cost reduction and management improvement program, savings of \$446,000 were realized during fiscal 1968, attributable to further improvements in technology and systems, realignment of organization and staffing, and the fruits of continuing programs for the development of people in management skills at all levels.

**Personnel**

Special manpower and employment programs were emphasized in both the headquarters and field organizations of the Bureau of Accounts during the year. Included in or covered by this activity were (1) the equal employment opportunity program and (2) Operation MUST (Maximum Utilization of Skills and Training), the advancement of women and the employment of the physically, economically, and educationally disadvantaged. These programs were pursued both in terms of increasing the degree of participation and improving the general content.

### Systems improvement

Bureau staff continued to represent the Treasury on the steering committee and survey teams of the joint financial management improvement program. Primary attention was given to implementing the recommendations of the President's Commission on Budget Concepts as described under "Government-wide Financial Management."<sup>1</sup> Other systems work during the year included various studies to improve internal procedures and the release of Government-wide regulations under the Treasury Fiscal Requirements Manual.

### Central accounting and reporting

Adoption in 1968 of a wide range of recommendations of the President's Commission on Budget Concepts dealing with the form and content of the budget<sup>1</sup> represented the most significant development in Government-wide accounting and reporting since the Budget and Accounting Procedures Act of 1950. During the Commission's study and formulation of recommendations, the Bureau furnished the staff a number of papers, tables, and technical advice on draft chapters. Many of the Commission's recommendations were incorporated in the President's budget for 1969. It was then necessary for the Bureau to make these conceptual changes in various Government-wide financial reports, including complete revisions of the "Monthly Statement of Receipts and Expenditures of the United States Government" and the "Combined Statement of Receipts, Expenditures and Balances of the United States Government," along with changes in applicable portions of the "Treasury Bulletin" and this report. Also, instructions to the agencies and departments concerning reporting under the new budget concepts were required.

A new monthly series on obligations, by object class, incurred by Federal departments and agencies was developed jointly by the Bureau of the Budget and the Bureau of Accounts. This data was first published in the September 1967 "Treasury Bulletin" covering fiscal years 1964, 1965, 1966, and 1967 through May. Additional monthly data have been continued in subsequent issues of the bulletin.

The final chapter of the accounting manual covering the Bureau's system of central accounting for cash operations was submitted to the General Accounting Office for review in June 1968. The separate special manual covering the Bureau's central accounting for foreign currency operations was submitted to the General Accounting Office in February 1967.

In fiscal 1968, the first "Statement of Liabilities and Other Financial Commitments of the United States Government" compiled in accordance with 31 U.S.C. 757f was submitted to the Congress. This annual statement shows the liabilities of the Federal Government as of the end of the fiscal year and other financial commitments which may or may not subsequently become liabilities, depending upon a variety of future conditions and events.

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<sup>1</sup> In the "Review of Fiscal Operations" portion of this report, pages 8-10.



### Auditing

During fiscal 1968, the audit staff of the Bureau conducted 15 financial and two management audits. In addition, comprehensive management surveys were performed in five regional offices.

Also completed was the annual examination of the financial statements and related supporting data of surety companies holding Treasury Certificates of Authority as acceptable sureties on bonds running in favor of the United States (6 U.S.C. 8). Certificates are renewable each July 1 and a list of approved companies (Department Circular 570, Revised) is published annually in the "Federal Register" for the information of Federal bond approving officers and persons required to give bonds to the United States. As of June 30, 1968, a total of 248 companies held certificates.

General coordination and staff assistance were furnished for the annual audit of the Exchange Stabilization Fund. Other audits made of departmental activities included the unissued stocks of Federal Reserve notes.

### Disbursing operations

The Division of Disbursement reached a new level of output in fiscal 1968, producing 440.4 million checks and bonds in 11 disbursing offices for 1,400 administrative agency offices. The 440.4 million items was an increase of 18 million over 1967. The Washington and Manila disbursing offices serviced a number of foreign service posts in the Caribbean and Far East. The Washington Disbursing Center also initiated checkwriting activities for the D.C. Government and will soon begin issuing their U.S. savings bonds.

Management savings and employee productivity, which increased by 3.5 percent, helped reduce the average unit cost of checks and bonds to 2.7 cents, an alltime low. Aside from the increased productivity and the absorption of increased volumes by EDP equipment, the programs or projects which accounted for the bulk of monetary and man-years savings included:

- (1) Replacement of EAM equipment by a different lessor at reduced rates.

- (2) Full utilization of new and improved inserting and sealing equipment.

- (3) Implementation of a joint Social Security Administration—Treasury study group recommendation to eliminate gummed label redirection notices for payee changes of address within the same ZIP code.

Through cooperative efforts, the following projects resulted in savings to the agencies concerned:

- (1) The Social Security Administration estimates savings of \$105,000 and 19 man-years as the result of a recommendation of the joint Social Security Administration—Treasury study group that non-receipt claims of social security beneficiaries be forwarded to disbursing centers on the day of receipt without beneficiary folder reference in the Social Security Payment Center. This accelerates the remailing of returned checks or the issuance of substitute checks.

- (2) Beginning with the June 1968 payments, checks for railroad retirement benefits, encompassing approximately 13 million payments

annually, were added to the ZIP code presort system. The future addition of veterans' compensation and pension payments, civil service annuity payments and public debt interest payments will complete the project to presort all of the major volume payments susceptible to presorting. The system is responsible for substantial savings in the Post Office Department's operations and has greatly improved delivery service to recipients of the checks.

The following table compares the workloads for fiscal years 1967 and 1968.

Classification	Volume	
	1967	1968
Operations financed by appropriated funds:		
Checks:		
Social security benefits .....	234, 210, 686	246, 752, 214
Veterans' benefits .....	64, 764, 251	65, 292, 702
Income tax refunds .....	48, 991, 354	51, 868, 895
Veterans' national service life insurance dividends programs .....	5, 793, 488	2, 254, 582
Other .....	48, 656, 410	52, 797, 084
Savings bonds .....	6, 623, 058	7, 273, 797
Adjustments and transfers .....	234, 886	252, 322
	409, 274, 133	426, 491, 596
Operations financed by reimbursements:		
Railroad Retirement Board .....	12, 152, 596	12, 894, 907
Bureau of Public Debt (General Electric Co. bond program) .....	933, 775	978, 591
Total workload—reimbursable items .....	13, 086, 371	13, 873, 498
Total workload .....	422, 360, 504	440, 365, 094

### Deposits, investments, and related activities

*Federal depositary system.*—The types of depositary services provided and the number of depositaries for each of the authorized services as of June 30, 1967 and 1968, are shown in the following table:

Type of service provided by depositaries	1967	1968
Receive deposits from taxpayers and purchasers of public debt securities, for credit in Treasury tax and loan accounts .....	12, 362	12, 613
Receive deposits from Government officers for credit in Treasurer's general accounts .....	1, 373	1, 506
Maintain official checking accounts of Government officers .....	6, 863	7, 273
Furnish bank drafts to Government officers in exchange for collections .....	1, 100	1, 250
Maintain State unemployment compensation benefit payments and clearing accounts .....	52	53
Operate limited banking facilities:		
In the United States and its outlying areas .....	248	245
In foreign areas .....	227	218

*Investments.*—Government trust funds are invested in marketable U.S. securities, participation certificates, Government agency securities, and special securities issued for purchase by the major trust funds as authorized by law.

See the Statistical Appendix for table showing the holdings of public debt securities, agency securities, and participation certificates by Government agencies and accounts.

*Loans by the Treasury.*—The Bureau administers loan agreements with those corporations and agencies that have authority to borrow from the Treasury. See the Statistical Appendix for tables showing the status of Treasury loans to Government corporations and agencies as of June 30, 1968.

*Surety bonds.*—Executive agencies are required by law (6 U.S.C. 14) to obtain, at their own expense, blanket, position schedule, or other types of surety bonds covering employees required to be bonded. The legislative and judicial branches are permitted by law to follow the same procedure. A summary of bonding activities of Government agencies follows:

Number of officers and employees covered on June 30, 1968-----	971, 891
Aggregate penal sums of bonds procured-----	\$3, 542, 610, 350
Total premiums paid by the Government in fiscal 1968-----	\$266, 125
Administrative expenses in fiscal 1968-----	\$71, 461

### Foreign indebtedness

*World War I.*—During fiscal 1968 the first payment of \$328,898.02 was made pursuant to the agreement of May 28, 1964, between the United States and Greece concerning the refinancing of a portion of the Greek debt. For status of World War I indebtedness to the United States see the Statistical Appendix.

*Credit to the United Kingdom.*—The Government of the United Kingdom made a principal payment of \$60.9 million and an interest payment of \$67 million on December 31, 1967, under the Financial Aid Agreement of December 6, 1945, as amended March 6, 1957. The interest payment includes \$8.6 million representing interest on principal and interest installments previously deferred. Through June 30, 1968, cumulative payments totaled \$1,651.6 million, of which \$930.1 million was interest. A principal balance of \$3,028.5 million remains outstanding; interest installments of \$262.6 million which have been deferred by agreement also were outstanding at the fiscal yearend.

*Japan, postwar economic assistance.*—The Government of Japan made payments in fiscal year 1968 of \$35.6 million principal and \$8.3 million interest on its indebtedness arising from postwar economic assistance. Cumulative payments through June 30, 1968, totaled \$185.5 million principal and \$56 million interest, leaving an unpaid principal balance of \$304.5 million.

### Payment of claims against foreign governments

The eighth installment of \$2 million was received from the Polish Government under the Agreement of July 16, 1960, and a pro rata payment of 2.305 percent on the unpaid balance of each award was authorized.

The Foreign Claims Settlement Commission notified the Secretary of the Treasury of the final amount of the awards adjudicated under the War Claims Act of 1948, as amended, and a pro rata payment of 61.3 percent on the unpaid balance of each award over \$10,000 was authorized.

The Commission recertified Hungarian war damage awards amount-



ing to \$5.7 million. Under the War Claims Act of 1948, as amended, payments made on awards recertified could not exceed 40 percent of the amount of the award recertified.

The Foreign Claims Settlement Commission at the fiscal yearend was certifying to the Secretary of the Treasury awards for payment under the International Claims Settlement Act of 1949, as amended, and the Yugoslav Claims Agreement of November 5, 1964. Initial payments up to \$1,000 on all awards certified were authorized and payments were being made at the fiscal yearend. See the Statistical Appendix for more details.

#### **Defense lending**

*Defense Production Act.*—Loans outstanding were reduced from \$11.7 million to \$10.1 million during fiscal 1968. Further transfers of \$1.7 million were made to the account of the General Services Administration, from the net earnings accumulated since inception of the program, bringing the total of these transfers to \$23.8 million.

*Federal Civil Defense Act.*—Outstanding loans were reduced from \$429,706 to \$386,375 during fiscal 1968.

*Liquidation of Reconstruction Finance Corporation assets.*—The Secretary of the Treasury's responsibilities in the liquidation of RFC assets relate to completing the liquidation of business loans and securities with individual balances of \$250,000 or more as of June 30, 1957, and securities of and loans to railroads and financial institutions. Net income and proceeds of liquidation amounting to \$54.2 million have been paid into Treasury as miscellaneous receipts since July 1, 1957. Total unliquidated assets as of June 30, 1968, had a gross book value of \$5.0 million.

#### **Liquidation of Postal Savings System**

Effective July 1, 1967, pursuant to the act of March 28, 1966 (39 U.S.C. 5225-5229) the unpaid deposits of the Postal Savings System as shown on the books of the Board of Trustees, totaling \$56,788,958.29 (including accrued interest due), were to be transferred to the Secretary of the Treasury, of which \$50 million was transferred during fiscal 1968. These deposits are held in trust by the Secretary pending proper application for payment. Under interim arrangements, except for certain dormant accounts, local post offices process applications for withdrawal of funds by depositors and forward them to the Bureau for payment. Payments totaling \$35,350,234.78 were made during fiscal 1968.

#### **Federal tax deposits (depository receipts)**

In fiscal 1967 the Federal Tax Deposit System was used for the collection of corporate income taxes only. During fiscal 1968, this modified depository receipts procedure was extended to all other classes of taxes formerly handled through the depository receipts system. As discussed in the description of the new system on page 11 of the 1967 annual report, the Bureau of Accounts prepares and mails the Federal tax deposit forms quarterly to private enterprises. During fiscal year 1968, five disbursing centers handled a total volume exceeding 51 million forms, involving approximately 4 million taxpayers. The



following table shows the volume of deposits processed for fiscal years 1960-68.

Fiscal year	Individual income and social security taxes	Railroad retirement taxes	Federal excise taxes	Corporate income taxes	Total
1960.....	9,469,057	10,625	598,881	-----	10,078,563
1961.....	9,908,068	10,724	618,971	-----	10,537,763
1962.....	10,477,119	10,262	610,026	-----	11,097,407
1963.....	11,161,897	9,937	619,519	-----	11,791,353
1964.....	11,729,243	9,911	633,437	-----	12,372,591
1965.....	12,012,385	9,859	644,753	-----	12,666,997
1966.....	12,518,436	9,986	259,952	-----	12,788,374
1967.....	15,007,304	10,551	236,538	22,783	15,277,176
1968.....	17,412,921	14,596	233,083	394,792	18,055,392

NOTE.—Comparable data for 1944-59 will be found in the 1962 annual report, page 141.

### Government losses in shipment

Claims totaling \$156,694.35 were paid from the revolving fund established by the Government Losses in Shipment Act, as amended. Details of operations under this act are shown in the Statistical Appendix.

### Other operations

*Donations and contributions.*—During the year the Bureau of Accounts received “conscience fund” contributions totaling \$28,371.63 and other unconditional donations totaling \$520,845.29. Other Government agencies received conscience fund contributions and unconditional donations amounting to \$7,779.89 and \$798,067.81, respectively. Conditional gifts to further the defense effort amounted to \$3,774.31. Gifts of money and the proceeds of real or personal property donated in fiscal 1968 for the purpose of reducing the public debt amounted to \$98,942.97, of which \$98,301.71 was used to redeem public debt securities.

## BUREAU OF THE PUBLIC DEBT

The Bureau of the Public Debt, in support of the management of the public debt, has responsibility for the preparation of Treasury Department circulars offering public debt securities, the direction of the handling of subscriptions and making of allotments, the formulation of instructions and regulations pertaining to each security issue, the issuance of the securities, and the conduct or direction of transactions in those outstanding. The Bureau is responsible for the final audit and custody of retired securities, the maintenance of the control accounts covering all public debt issues, the keeping of individual accounts with owners of registered securities and authorizing the issue of checks in payment of interest thereon, and the handling of claims on account of lost, stolen, destroyed, or mutilated securities.

The Bureau’s principal office and headquarters is in Washington, D.C. Offices also are maintained in Chicago, Ill., and Parkersburg, W. Va., where most Bureau operations related to U.S. savings bonds and U.S. savings notes are handled. Under Bureau supervision many transactions in public debt securities are conducted by the Federal Reserve banks and their branches as fiscal agents of the United States. Selected post offices, private financial institutions, industrial organizations, and others (approximately 19,000 in all) cooperate in the

issuance of savings bonds and savings notes, and approximately 16,500 financial institutions act as paying agents for savings bonds.

#### **Management improvement**

Regulations and implementing procedures providing for the use of book-entry Treasury securities were put into effect as of January 1, 1968.<sup>1</sup> These book-entry securities consist of transferable Treasury bonds, notes, certificates of indebtedness, and bills represented by entries in the records of the issuing Federal Reserve bank, as distinguished from definitive securities represented by distinctively printed pieces of paper. Transactions are accomplished by accounting entries, rather than through the issue, exchange, and retirement of physical securities. The adoption of the book-entry system culminated a joint study by the Treasury and the Federal Reserve banks, of some 4 years duration.<sup>2</sup> The system was designed to take advantage of modern equipment and technology in reducing paperwork, while enhancing the attractiveness and safety of Treasury securities. In its initial application, the book-entry system was limited to transferable Treasury securities deposited with a Federal Reserve bank or branch as collateral for Treasury tax and loan accounts; as collateral for the deposit of public moneys; or, by a member bank, for safekeeping or as collateral for advances. Studies have been undertaken to determine the feasibility of expanding the system to include other classes of securities not initially eligible.

To take maximum advantage of the book-entry system, the Department arranged to have all transferable Treasury securities held for Government investment accounts deposited with the Federal Reserve Bank of New York in book-entry form. Special Treasury issues representing the investment of various Government trust funds were also converted to a book-entry system operated within the Department. The Bureau of the Public Debt maintains the book-entry accounts for these special issues.

Beginning in January 1968 the Federal Reserve banks were authorized to issue registered Treasury securities. This delegation to the banks is intended primarily as a means of improving service to security owners through the accelerated delivery of registered bonds and notes.

The conversion of the current income savings bonds operations of the Chicago office to an electronic data processing system was completed in December 1967. The converted activities include the audit and classification of transactions; the establishment and maintenance of accounts of owners; and the preparation of tapes to furnish data to the regional disbursing office for use in issuing interest checks and to the Internal Revenue Service in connection with interest paid. Significant monetary benefits are being realized and service to the public has been improved.

During the year a computer system was selected for installation in the Washington office, and the training of programmers, the development and testing of programs, and site preparation were undertaken. The initial objective of the system is the conversion of public debt accounting and other operations now performed on conventional tabulating equipment. The equipment is to be installed during July 1968.

<sup>1</sup> See exhibit 3.

<sup>2</sup> See 1967 annual report, page 88.

The Parkersburg office has continued to emphasize the project of having large volume issuing agents which use computers report savings bonds issue data on magnetic tape and microfilm in lieu of registration stubs. One additional Federal Reserve bank converted to this system during the year, bringing to six the number of agents reporting on tape. Pilot studies were also initiated with four other agents. The office has now acquired a micromatic printer which can generate microfilm of registration data direct from magnetic tape. This will eliminate the microfilming requirement for agents which are now reporting on tape, and will permit extension of the reporting system to agents which use computers but do not have microfilm facilities.

The efficiency and versatility of the Parkersburg office EDP system have been increased by the installation of additional peripheral equipment. Encoders permit the entry of data directly onto magnetic tape, rather than through the medium of punch cards. The original application of these machines in recording numeric data relating to retired paper bonds has demonstrated their economy of operation. Supplementing the encoders is equipment that permits the interchange of data between one-half inch and three-quarter inch tapes. This facility makes possible the onsite conversion of half-inch tapes supplied by issuing agents, as well as the tapes from the encoders.

Safekeeping facilities for U.S. savings bonds and notes issued to members of the Army and Air Force, heretofore provided by the Federal Reserve Bank of Chicago at Bureau expense, will be assumed by those services, starting with bonds and notes issued after June 30, 1968. The concentration of the operations within the Department of Defense should benefit service personnel.

#### **Bureau operations**

The extent of the change in the composition of the public debt is one measure of the Bureau's work. The debt falls into two broad categories: public issues and special issues. Public issues consist of marketable Treasury bills, certificates of indebtedness, notes, and bonds; and nonmarketable securities, chiefly U.S. savings bonds, U.S. savings notes, U.S. retirement plan bonds, and Treasury bonds of the investment series. Special issues of certificates, notes, and bonds are made by the Treasury directly to various Government trust and certain other accounts and are payable only for these accounts.

During the year, 35,629 individual accounts covering publicly held registered securities other than savings bonds, savings notes, and retirement plan bonds were opened and 27,323 were closed. This increased the number of open accounts to 223,199 covering registered securities in the principal amount of \$11,239 million. There were 416,980 interest checks with a value of \$389 million issued during the year.

Redeemed and canceled securities other than savings bonds, savings notes, and retirement plan bonds received for audit included 6,400,800 bearer securities and 236,496 registered securities. Coupons totaling 16,357,783 were received.

During the year 15,933 registration stubs of retirement plan bonds and 3,184 retirement plan bonds were received for audit.



A summary of public debt operations handled by the Bureau appears on pages 11-20 of this report and in the Statistical Appendix.

*U.S. savings bonds.*—The issuance and redemption of savings bonds results in a heavy administrative burden for the Bureau of the Public Debt, involving: maintenance of alphabetical and numerical ownership records for the 3.1 billion bonds issued since 1935; adjudication of claims for lost, stolen, and destroyed bonds (which totaled 2.3 million pieces on June 30, 1968); and the handling and recording of retired bonds.

Detailed information on sales, accrued discount, and redemptions of savings bonds will be found in the Statistical Appendix.

There were 121 million stubs or records on magnetic tape and microfilm representing the issuance of series E bonds received for registration, making a grand total of 3,001 million, including reissues, received through June 30, 1968.

All registration stubs of series E savings bonds and all retired series E savings bonds are microfilmed, audited, and destroyed, after required permanent record data are prepared by an EDP system in the Parkersburg office. The following table shows the status of processing operations for savings bonds and savings notes in the Parkersburg office.

Fiscal year	Re- ceived	Micro- filmed	Key punched	Con- verted to mag- netic tape	Audited and classi- fied	De- stroyed	Balance			
							Un- filmed	Not key punched	Not con- verted to magnetic tape	Unau- dited
Stubs of issued card type series E savings bonds (in millions of pieces)										
1958-63.....	508	506	503	503	500	436	2.7	4.7	4.7	8.2
1964.....	100	98	98	98	98	96	4.6	7.2	7.2	9.9
1965.....	98	101	101	101	102	124	2.3	4.5	4.5	6.6
1966.....	101	101	100	100	100	100	2.3	5.5	5.9	7.5
1967.....	104	104	105	105	103	103	2.6	5.2	5.2	8.9
1968.....	102	103	103	103	103	98	1.7	4.4	4.4	8.1
Total 1.....	1,014	1,013	1,010	1,010	1,006	957				
Retired card type series E savings bonds and savings notes 2 (in millions of pieces)										
1958-63.....	305	303	301	301	299	257	2.2	3.8	3.8	5.8
1964.....	70	70	69	69	69	83	2.3	5.0	5.0	6.8
1965.....	75	76	77	77	77	60	1.7	3.2	3.5	5.2
1966.....	82	81	80	80	80	92	2.2	5.0	5.0	6.5
1967.....	87	88	87	87	86	85	2.0	4.9	5.5	8.3
1968.....	95	94	96	97	95	84	2.5	3.6	3.6	7.6
Total.....	714	711	710	710	706	661				
Retired paper type series E savings bonds (in millions of pieces)										
1962-63 3.....	22.6	22.0	21.5	21.5	20.6	5.1	0.6	1.1	1.1	2.0
1964.....	22.4	22.4	22.1	22.1	22.3	23.4	.6	1.4	1.4	2.1
1965.....	20.4	20.5	21.0	20.9	21.2	11.0	.5	.8	.9	1.3
1966.....	19.3	19.4	19.1	19.2	19.3	33.9	.4	1.0	1.0	1.3
1967.....	16.8	16.8	17.0	17.0	16.7	16.0	.4	.8	.8	1.4
1968.....	15.2	15.2	15.3	15.2	15.3	13.8	.4	.7	.8	1.3
Total.....	116.7	116.3	116.0	115.9	115.4	103.2				
Stubs of issued United States savings notes 2 (in millions of pieces)										
1967.....	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
1968.....	6.9	6.6	6.5	6.5	6.2	2.3	0.3	0.4	0.4	0.7

\*Less than 50,000.

1 Excludes records received on magnetic tape and microfilm: 5.3 million in 1965, 6.4 million in 1966, 12.8 million in 1967, and 17.2 million in 1968, for a total of 41.7 million.

2 U.S. savings notes were first issued in May 1967.

3 In 1962 (and in prior years) most paper type bonds were processed in other offices manually and on tabulating equipment.



Of the 106.1 million series A-E savings bonds redeemed and charged to the Bureau during the year 103.5 million (97.6 percent) were redeemed by authorized paying agents. For these redemptions these agents were reimbursed quarterly at the rate of 15 cents each for the first 1,000 bonds paid and 10 cents each for all over the first 1,000 for a total of \$13,349,439 and an average of 12.89 cents per bond.

The following table shows the number of savings bonds outstanding as of June 30, 1968, by series and denomination.

Series <sup>1</sup>	Total	Denomination (in thousands of pieces)										
		\$10	\$25	\$50	\$75	\$100	\$200	\$500	\$1,000	\$5,000	\$10,000	\$100,000
E.....	504,616	596	270,412	115,945	3,703	81,001	8,707	11,967	12,235		48	2
H.....	6,955							2,702	3,836	319	98	
A.....	2		1	(*)		1		(*)	(*)			
B.....	3		1	1		1		(*)	(*)			
C.....	7		3	1		2		(*)	1			
D.....	33		13	6		9		2	3			
F.....	30		15			9		2	4	(*)	(*)	
G.....	66					34		13	18	1	(*)	
J.....	108		26			44		11	22	2	3	(*)
K.....	56							18	31	4	3	(*)
Total...	511,876	596	270,471	115,953	3,703	81,101	8,707	14,715	16,150	326	152	2

\* Less than 500 pieces.

<sup>1</sup> Currently only bonds of Series E and H are on sale.

The following table shows the number of issuing and paying agents for series A-E savings bonds by classes.

June 30	Post offices <sup>1</sup>	Banks	Building and savings and loan associations	Credit unions	Companies operating payroll plans	All others	Total <sup>2</sup>
Issuing agents							
1945.....	24,038	15,232	3,477	2,081	<sup>3</sup> 9,605	(3)	54,433
1950.....	25,060	15,225	1,557	522	3,052	550	45,966
1955.....	2,476	15,692	1,555	428	2,942	588	23,681
1960.....	1,093	16,436	1,851	320	2,352	643	22,695
1964.....	977	13,908	1,702	252	1,783	528	19,150
1965.....	943	14,095	1,702	246	1,695	510	19,191
1966.....	934	14,114	1,710	241	1,621	482	19,102
1967.....	901	14,181	1,717	231	1,541	460	19,031
1968.....	870	14,234	1,701	227	1,485	448	18,965
Paying agents							
1945.....		13,466					13,466
1950.....		15,623	874	137		57	16,691
1955.....		16,269	1,188	139		56	17,652
1960.....		17,127	1,797	169		60	19,153
1964.....		14,039	1,779	158		15	15,991
1965.....		14,190	1,816	157		15	16,178
1966.....		14,247	1,857	164		15	16,283
1967.....		14,264	1,884	165		14	16,327
1968.....		14,304	1,970	175		79	16,528

<sup>1</sup> Estimated by the Post Office Department for 1955 and thereafter. Sale of series E savings bonds was discontinued at post offices at the close of business on Dec. 31, 1953, except in those localities where no other public facilities for their sale were available.

<sup>2</sup> Effective Dec. 31, 1960, a substantial reduction was made due to reclassification by Federal Reserve banks to include only the actual number of entities currently qualified. Does not include branches active in the savings bond program.

<sup>3</sup> "All others" included with companies operating payroll plans.

Interest checks issued on current income-type savings bonds (series H and K) during the year totaled 4,759,121 with a value of \$329,055,-491. New accounts established for series H bonds, the only current income-type savings bonds presently on sale, totaled 104,523 while accounts closed for series H bonds totaled 171,476, a decrease of 66,953 accounts.

Applications received during the year for the issue of duplicates of savings bonds lost, stolen, or destroyed after receipt by the registered owner or his agent totaled 42,532. In 24,106 of such cases the issuance of duplicate bonds was authorized. In addition, 24,496 applications for relief were received in cases where the original bonds were reported as not being received after having been mailed to the registered owner or his agent.

### OFFICE OF THE TREASURER OF THE UNITED STATES

The Treasurer of the United States is responsible for the receipt, custody, and disbursement, upon proper order, of the public moneys and for maintaining records of the source, location, and disposition of these funds. The functions performed by the Treasurer's Office include the verification and destruction of U.S. paper currency; the redemption of public debt securities; the keeping of cash accounts in the name of the Treasurer; the acceptance of deposits made by Government officers for credit; and the custody of bonds held to secure public deposits in commercial banks. In addition, Federal Reserve banks, as depositaries and fiscal agents of the United States, perform many similar functions for the Treasurer.

Commercial banks qualifying as depositaries provide banking facilities for the Government in the United States and in foreign countries. Data on the transactions handled for the Treasurer by Federal Reserve banks and commercial banks are reported daily to the Treasurer and are entered in the Treasurer's general accounts.

The Treasurer maintains current summary accounts of all receipts and expenditures; pays the principal and interest on the public debt; provides checking account facilities for Government disbursing officers, corporations, and agencies; pays checks drawn on the Treasurer of the United States and reconciles the checking accounts of the disbursing officers; procures, stores, issues, and redeems U.S. currency; audits redeemed Federal Reserve currency; examines and determines the value of mutilated currency; and acts as special agent for the payment of principal and interest on certain securities of U.S. Government corporations.

The Office of the Treasurer maintains facilities at the Treasury to: Accept deposits of public moneys by Government officers; cash U.S. savings bonds and checks drawn on the Treasurer; receive excess and unfit currency and coins from banks in the Washington, D.C., area; and conduct transactions in both marketable and nonmarketable public debt securities. The Office also prepares the "Daily Statement of the United States Treasury" and the monthly "Statement of United States Currency and Coin."

Under the authority delegated by the Comptroller General of the United States, the Treasurer processes claims arising from forged endorsements and other irregularities involving checks paid by the Treasurer and passes upon claims for substitute checks to replace lost or destroyed unpaid checks.

The Treasurer of the United States is custodian of bonds held to secure public deposits in commercial banks, and miscellaneous securities held for other agencies.

#### **Management improvements**

*Federal Reserve notes.*—On January 1, 1968, under the Secretary's authority as set forth in Public Law 89-427, enacted May 20, 1966, the verification and destruction of unfit Federal Reserve notes in the Reserve banks was extended to the \$20, \$50, and \$100 denominations. Notes of these denominations, totaling about 188 million pieces a year, will no longer be shipped to the Treasury where they formerly were verified and destroyed. The Federal Reserve Audit Branch in the Currency Redemption Division of this office has been abolished. The realignment of procedures and decentralization of this function are estimated to result in annual recurring savings of \$346,000 and 50 man-years.

*ADP management.*—During the fiscal year, work performed for other agencies by the Treasurer's Office required the services of ADP personnel valued at \$210,000 and computer time valued at \$150,000. The general fund of the Treasury was increased by about \$105,000 in reimbursements for such computer usage.

The payroll processing services provided by the Treasurer's Office were extended in July 1967, to about 350 employees of the National Gallery of Art. In January 1968, these services were made available to approximately 680 employees in four installations of the Bureau of Prisons.

The second phase of the Federal Tax Deposit program began in January 1968. Under this procedure approximately 7,200,000 payments received from the banking system covering income, FICA, excise, corporation, and other taxes were converted to magnetic tape and furnished to the Internal Revenue Service.

The procedure for distributing the stock of domestic money orders to over 30,000 U.S. Post Offices has been computerized by the Treasurer's Office. Delivery of the money orders is now made each quarter on the basis of requirements developed from past usage experience. The Post Office has indicated that this automated distribution system is expected to generate \$50,000 in annual savings.

#### **Assets and liabilities in the Treasurer's account**

A summary of the assets and liabilities in the Treasurer's account at the close of the fiscal years 1967 and 1968 appears in the Statistical Appendix.

The assets of the Treasurer consist of gold and silver bullion, coin and coinage metals, paper currency, deposits in Federal Reserve



banks, and deposits in commercial banks designated as Government depositories.

*Gold.*—The Treasurer's gold assets declined sharply during fiscal 1968, largely as the result of contributions to an international pool supplying gold to the London market. On March 16 and 17, 1968, the contributing members of the pool met in Washington and agreed that officially-held gold should be used only for transfers among monetary authorities thereafter.<sup>1</sup> The outflow was slowed appreciably following this action.

The net reduction of \$2,742.8 million for fiscal 1968 represents sales of \$5,899.0 million, purchases of \$3,159.2 million, deposits by the International Monetary Fund of \$14.0 million and a withdrawal by the Fund of \$17.0 million.

*Silver.*—In July 1967 the Department discontinued sales of silver at the monetary value of \$1.29+ per ounce, a practice which it had followed up to that time to keep silver coins in circulation. An adequate supply of the new silverless coins permitted the change in policy. Beginning on August 4, 1967, Treasury silver was offered for sale each week on a bid basis through the General Services Administration in amounts needed to meet domestic demand. In March 1968 the Bureau of the Mint began melting down silver coins returned by the banking system, and beginning in May, silver from this source was also offered for sale. By the yearend, some 98 million ounces had been sold in this manner, at a profit of \$55 million, which was deposited to the general fund of the Treasury.

Under the act of June 24, 1967<sup>2</sup> (31 U.S.C. 405a-3) silver certificates continued to be exchangeable for silver bullion at the monetary value of \$1.29+ per ounce until June 24, 1968. On June 25, 1968, in compliance with the same act, 165 million ounces of silver with a monetary value of \$213.3 million were transferred to the stockpiles established pursuant to the Strategic and Critical Materials Stock Piling Act.

The following table on the daily Treasury statement basis, summarizes transactions in silver bullion of all types during fiscal 1968.

Fiscal year 1968	Silver bullion (In millions)			
	Held to secure certificates, monetary value	Held for coinage, etc.		
		Monetary value	Cost value	Uncurrent coin value
On hand July 1, 1967.....	\$551.7	\$17.5	(*)	\$0.3
Received (+), or disbursed (-), net.....	-141.0	-.4	+\$0.6	+22.8
Revalued.....	(*)		(*)	
Exchanged for silver certificates.....	-94.0	-4.2		-17.1
Released for coinage.....	-70.8	+70.8		
Withdrawn as security for certificates.....	-246.0	+246.0		
Used in coinage or in coinage metal.....		-37.2		-.5
Transferred to General Services Administration stockpile.....		-213.3		
On hand June 30, 1968.....		79.2	.6	5.5

\*Less than \$50,000.

<sup>1</sup> See exhibit 39.

<sup>2</sup> See 1967 annual report, p. 400.



*Balances with depositaries.*—The following table shows the number of each class of depositaries and balances on June 30, 1968.

	Number of accounts with depositaries <sup>1</sup>	Deposits to the credit of the Treasurer of the United States, June 30, 1968
Federal Reserve banks and branches.....	36	<sup>2</sup> \$1, 425, 225, 335
Other domestic depositaries reporting directly to the Treasurer.....	35	13, 557, 795
Depositaries reporting through Federal Reserve banks:		
General depositaries, etc.....	2, 355	141, 140, 744
Special depositaries, Treasury tax and loan accounts.....	12, 483	4, 113, 454, 028
Foreign depositaries <sup>3</sup> .....	61	35, 577, 405
<b>Total.....</b>	<b>14, 970</b>	<b>5, 728, 955, 307</b>

<sup>1</sup> Includes only depositaries having balances with the Treasurer of the United States on June 30, 1968. Excludes depositaries designated to furnish official checking account facilities or other services to Government officers, but which are not authorized to maintain accounts with the Treasurer. Banking institutions designated as general depositaries are frequently also designated as special depositaries hence the total number of accounts exceeds the number of institutions involved.

<sup>2</sup> Includes checks for \$351,535,487 in process of collection.

<sup>3</sup> Principally branches of U.S. banks and of the American Express International Banking Corp.

### Bureau operations

*Receiving and disbursing public moneys.*—Government officers deposit moneys which they have collected to the credit of the Treasurer of the United States. Such deposits may be made with the Treasurer at Washington, or at Federal Reserve banks, or at designated Government depositaries, domestic or foreign. Certain taxes are also deposited directly by the employers or manufacturers who withhold or pay them. All payments are withdrawn from the Treasurer's account. Moneys deposited and withdrawn in the fiscal years 1967 and 1968, exclusive of certain intragovernmental transactions, are shown in the following table on the daily Treasury statement basis.

Deposits, withdrawals, and balances in the Treasurer's account	1967	1968
Balance at beginning of fiscal year.....	\$12, 407, 377, 210	\$7, 758, 994, 525
Cash deposits:		
Internal revenue, customs, trust fund, and other collections.....	163, 036, 203, 399	165, 086, 296, 205
Public debt receipts <sup>1</sup> .....	280, 893, 225, 792	303, 962, 463, 920
Less:		
Accruals on savings bonds and notes, retirement plan bonds, and Treasury bills.....	-4, 705, 989, 274	-5, 319, 480, 407
Purchases by Government agencies.....	-82, 729, 779, 799	-75, 264, 118, 336
Sales of securities of Government agencies in market.....	14, 481, 607, 776	21, 793, 351, 288
Total deposits.....	370, 975, 267, 894	410, 258, 512, 669
Cash withdrawals:		
Budget and trust accounts, etc.....	164, 591, 006, 692	184, 581, 367, 232
Public debt redemptions <sup>1</sup> .....	274, 579, 375, 793	282, 604, 995, 288
Less:		
Redemptions included in budget and trust accounts.....	-5, 020, 054, 314	-5, 315, 093, 680
Redemptions by Government agencies.....	-74, 141, 110, 873	-70, 956, 764, 690
Redemptions of securities of Government agencies in market.....	16, 268, 217, 025	18, 313, 713, 142
Total withdrawals.....	376, 277, 434, 323	409, 228, 217, 292
Change in clearing accounts (checks outstanding, deposits in transit, unclassified transactions, etc.), net deposits, or withdrawals (-)....	653, 783, 744	-2, 095, 227, 780
Balance at close of fiscal year.....	7, 758, 994, 525	6, 694, 062, 122

<sup>1</sup> For details see Statistical Appendix.

*Issuing and redeeming paper currency.*—U.S. notes were the only U.S. paper currency issued by the Office of the Treasurer during fiscal 1968. As required by law (31 U.S.C. 404) these notes were issued in amounts equal to those redeemed. Unfit U.S. paper currency is redeemed and destroyed at the Federal Reserve banks and branches and at the Treasurer's Office in Washington, D.C.

Federal Reserve notes constitute over 98 percent of the paper currency in circulation. When printed by the Bureau of Engraving and Printing these notes were formerly delivered to the Office of the Comptroller of the Currency and the Treasurer's Office, to be held in joint custody; however, this arrangement was discontinued in April 1968 in the interest of economy. Under Treasury Department Order No. 95 (Revision No. 2), dated April 19, 1968 (see exhibit 69), the newly printed notes are retained in the custody of the Bureau of Engraving and Printing for the account of the Comptroller of the Currency. The Bureau ships notes to Federal Reserve agents and their representatives at Federal Reserve banks and branches as needed. Federal Reserve banks then obtain notes for issuance to the commercial banking system by depositing equivalent amounts of collateral with their respective agents.

As the notes become unfit for further circulation they are redeemed under procedures prescribed by the Fiscal Assistant Secretary. Notes of the \$1, \$5, and \$10 denominations are cancelled, verified, and destroyed at the Federal Reserve banks and at the Treasurer's Currency Redemption Division in Washington without being sorted by bank of issue. The Federal Reserve Board of Governors then apportions the redemption of such notes among the banks of issue on a formula basis. Since January 1, 1968, notes of the \$20, \$50, and \$100 denominations are sorted by bank of issue, then cancelled, verified, and destroyed at the same locations. The \$500, \$1,000, \$5,000, and \$10,000 denominations are sorted by bank of issue, cut in half and the lower halves forwarded to the Treasurer's Currency Verification Section in Washington, the banks retaining the upper halves and adjusting and destroying them after the Treasurer's verification is completed. In all cases the Federal Reserve Board of Governors serves as a clearing house for effecting appropriate settlements among the banks.

The Treasurer's Office accounts for Federal Reserve notes from the time that they are delivered by the Bureau of Engraving and Printing until finally redeemed and destroyed. The accounts show the amounts for each bank of issue and each denomination of notes held in the reserve vault, held by each Federal Reserve agent, or issued and outstanding.

The Currency Redemption Division redeems unfit paper currency of all types received locally in Washington and from Government officers abroad, as well as burned or mutilated currency from any source. During fiscal 1968 the Division examined and identified burned and mutilated currency for approximately 49,000 claimants and made payments therefor totaling \$12,117,865.

A comparison of the amounts of paper currency of all classes, issued,

redeemed, and outstanding during the fiscal years 1967 and 1968 follows.

	Fiscal year 1967		Fiscal year 1968	
	Pieces	Amount	Pieces	Amount
Outstanding July 1.....	5,264,762,001	\$41,967,353,297	4,630,433,420	\$42,495,177,099
Issues during year.....	1,990,312,012	11,899,289,572	2,268,619,466	13,074,100,130
Redemptions during year.....	2,624,640,593	11,371,465,770	2,074,016,826	10,490,967,086
Outstanding June 30.....	4,630,433,420	42,495,177,099	4,825,036,060	45,078,310,143

The Statistical Appendix shows by class and denomination the value of paper currency issued and redeemed during the fiscal year 1968 and the amounts outstanding at the end of the year; that volume also gives further details on the stock and circulation of money in the United States.

*Paying grants through letters of credit.*—Treasury Department Circular No. 1075, dated May 28, 1964, established a procedure “to preclude withdrawals from the Treasury any sooner than necessary” in cases where Federal programs are financed by grants or other payments to State or local governments or to educational or other institutions. Under this procedure Government departments and agencies issue letters of credit which permit grantees to make withdrawals from the account of the Treasurer of the United States as they need funds to accomplish the object for which a grant has been awarded.

By the close of fiscal 1968, 41 Government agency accounting stations were making disbursements through letters of credit. A total of 60,327 withdrawal transactions, aggregating \$18,310.8 million, were processed during the year, compared with 57,007 transactions, totaling \$13,955.6 million for the preceding year.

*Checking accounts of disbursing officers and agencies.*—As of June 30, 1968, the Treasurer maintained 2,128 checking accounts, compared with 2,104 the year before. The number of checks paid by categories of disbursing officers during fiscal 1967 and 1968 follow.

Disbursing officers	Number of checks paid	
	1967	1968
Treasury.....	412,134,281	426,439,674
Army.....	36,629,305	38,883,267
Navy.....	38,775,501	39,952,041
Air Force.....	35,415,052	35,882,940
Other.....	26,822,415	28,571,971
Total.....	549,776,554	569,729,893

*Settling check claims.*—During the fiscal year the Treasurer processed 628,406 requests for stop payment on Government checks and 97,755 requests for removal of stoppage of payments.

The Treasurer acted upon 329,768 paid check claims during the year, including those referred to the U.S. Secret Service for investiga-

tion which involved the forgery, alteration, counterfeiting, or fraudulent issuance and negotiation of Government checks. Reclamation was requested from those having liability to the United States on 46,976 claims, and \$5,307,083.59 was recovered. Settlements and adjustments were made on 35,620 cases totaling \$5,848,107.39. Disbursements from the check forgery insurance fund, established to enable the Treasurer to expedite settlement of check claims, totaled \$771,728.32. As recoveries are made, these moneys are restored to the fund. Settlements totaling \$6,698,196.60 have been made from the Treasurer's Check Forgery Insurance Fund since it was established on November 21, 1941.

Claims by payees and others involving 141,668 outstanding checks were acted upon. Of these, 133,733 were certified for issuance of substitute checks valued at \$92,596,411.90 to replace checks that were not received or were lost, stolen, or destroyed.

The Treasurer treated as canceled and transferred to accounts of agencies concerned for adjustment purposes the proceeds of 18,100 unavailable outstanding checks, totaling \$9,730,365.38.

*Collecting checks deposited.*—Government officers during the year deposited more than 8,542,000 commercial checks, drafts, money orders, etc., with the Treasurer's Cash Division in Washington for collection.

*Custody of securities.*—The face value of securities held in the custody of the Treasurer as of June 30, 1967, and June 30, 1968, is shown below.

Purpose for which held	June 30	
	1967	1968
As collateral:		
To secure deposits of public moneys in depository banks.....	\$59, 514, 600	\$42, 439, 600
In lieu of sureties.....	4, 227, 850	4, 622, 000
In custody for Government officers and others:		
For the Secretary of the Treasury <sup>1</sup> .....	33, 086, 328, 515	33, 173, 227, 275
For the Comptroller of the Currency.....	17, 964, 500	10, 015, 000
For the Federal Deposit Insurance Corporation.....	842, 062, 000	245, 000, 000
For the Rural Electrification Administration.....	139, 661, 506	162, 733, 373
For the District of Columbia.....	182, 667, 476	169, 955, 879
For the Commissioner of Indian Affairs.....	37, 728, 250	53, 245, 650
Foreign obligations <sup>2</sup> .....	12, 045, 086, 451	12, 040, 894, 451
Other <sup>3</sup> .....	52, 660, 356	49, 087, 296
For Government security transactions:		
Unissued bearer securities.....	1, 737, 334, 000	4, 190, 314, 800
Total.....	48, 205, 235, 504	50, 141, 535, 324

<sup>1</sup> Includes those securities of Government corporations and other business-type activities reported in the Statistical Appendix as held by the Treasury.

<sup>2</sup> Issued by foreign governments to the United States for indebtedness arising from World War I.

<sup>3</sup> Includes U.S. savings bonds in safekeeping for individuals.

*Servicing securities for Government corporations and Federal agencies.*—In accordance with agreements between the Secretary of the Treasury and various Government corporations and agencies, the Treasurer of the United States acts as special agent for the payment of principal of and interest on their securities. A comparison of these



payments during the fiscal years 1967 and 1968, on the daily Treasury statement basis, is as follows.

Payment made for	1967		1968	
	Principal redeemed	Interest paid	Principal redeemed	Interest paid
Banks for cooperatives.....	\$1,783,705,000	\$50,203,178	\$2,360,260,000	\$59,758,851
District of Columbia Armory Board.....		781,641		813,981
Federal home loan banks.....	5,563,395,000	341,123,959	5,222,730,000	226,814,783
Federal Housing Administration.....	106,644,750	23,486,977	55,496,650	23,415,580
Federal intermediate credit banks.....	3,756,645,000	146,476,292	4,100,310,000	159,051,722
Federal land banks.....	1,082,109,800	183,940,306	1,656,903,600	238,231,761
Federal National Mortgage Association.....	891,289,000	120,254,871	638,404,000	120,826,176
Others.....	139,475	45,607	159,025	39,160
Total.....	13,185,928,025	866,312,831	14,034,263,275	828,952,018

### Office of Foreign Assets Control

The Office of Foreign Assets Control is responsible for administering the Treasury Department's freezing controls. During fiscal 1968, the controls under the Foreign Assets Control Regulations and the Cuban Assets Control Regulations with respect to trade and financial transactions with, and assets in the United States of Communist China, North Korea, North Vietnam, Cuba and their nationals and the prohibitions relating to the purchase abroad and importation of Communist Chinese, North Korean, North Vietnamese and Cuban merchandise were continued.

The Office of Foreign Assets Control also administered without change during fiscal 1968 the Transaction Control Regulations which supplement the export controls exercised by the Department of Commerce over direct exports from the United States to Eastern Europe and the U.S.S.R. These prohibit, unless licensed, any person within the United States from purchasing or selling or arranging the purchase or sale of internationally controlled strategic commodities located outside the United States for ultimate delivery to the Soviet Bloc. As in the case of both the Foreign Assets and Cuban Assets Control Regulations, the prohibitions apply not only to domestic American companies but also to foreign firms owned or controlled by persons within the United States.

The administration of assets remaining blocked under the World War II Foreign Funds Control Regulations which were transferred to the Office of Foreign Assets Control from the Department of Justice in fiscal 1966 was also continued. These regulations apply to assets blocked under Executive Order 8389 of Hungary, Czechoslovakia, Estonia, Latvia, Lithuania, East Germany, and nationals thereof who were on January 1, 1945, in Hungary or on December 7, 1945, in Czechoslovakia, Estonia, Latvia or Lithuania or on December 31, 1946, in East Germany.

In addition, the Office administered unchanged the Rhodesian Transaction Regulations, issued on March 1, 1967, under Executive Order No. 11322 of January 5, 1967, implementing the United Nations Security Council's resolution No. 232 of December 16, 1966, which

imposed selective mandatory economic sanctions against Southern Rhodesia.

Under the Foreign Assets Control and Transaction Control Regulations, the number of specific license applications received (including applications reopened) during the fiscal year ending June 30, 1968, was 5,713. During that period a total of 5,684 was acted on.

Under the Cuban Assets Control Regulations, 452 applications for licenses were received (including applications reopened) during the fiscal year, and 451 applications were acted on. Comparable figures under the Foreign Funds Control Regulations were 153 applications received and 163 acted on and under the Rhodesian Transaction Control Regulations, 21 applications received and 22 acted on.

Certain broad categories of unexceptionable transactions are covered by general licenses set forth in the regulations, and such transactions may be engaged in by interested parties without need for securing specific licenses.

The enforcement efforts of the Control resulted in three criminal convictions during the fiscal year for violations of the Regulations. Fines totaling \$13,500 were imposed and collected. Moreover, during this period, violations of the Foreign Assets Control Regulations led to the forfeiture to the United States, under applicable Customs laws, of merchandise totaling in excess of \$55,063. In addition, merchandise tentatively valued at approximately \$110,871 was seized and is expected to be forfeited after the completion of the necessary formal procedures. In still other cases where forfeitures and civil penalties were mitigated as a result of extenuating circumstances, more than \$34,491 was collected in lieu of forfeiture and civil penalties.

### Internal Revenue Service <sup>1</sup>

The Internal Revenue Service administers the internal revenue laws embodied in the Internal Revenue Code (title 26 U.S.C.) and certain other statutes, including the Federal Alcohol Administration Act (27 U.S.C. 201-212), the Liquor Enforcement Act of 1936 (18 U.S.C. 1261, 1262, 3615), and the Federal Firearms Act (15 U.S.C. 901-910).<sup>2</sup> It is the mission of the Service to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service.

#### Major management improvements

Since the Government-wide program for cost reduction and management improvement was initiated by the President 3 years ago, the Service has documented and reported savings of almost \$48 million. The \$16.8 million reported in fiscal 1968 represented a record high. This savings is considered particularly significant since it was achieved despite funding restrictions which resulted in the deferral of several major projects.

*Major systems and procedural changes.*—Agreement was reached with 27 States and the District of Columbia for providing them with

<sup>1</sup> Additional information will be found in the separate "Annual Report of the Commissioner of Internal Revenue."

<sup>2</sup> See also page 33.

magnetic tapes of selected data elements from the Service's individual master tape file. Tapes are made available to States on a reimbursable basis. The magnetic tape interchange program benefits both the Federal Government and the States by making the information interchange more efficient and economical than was possible under the manual means used in years past. To insure the confidentiality of tax information supplied States and their political subdivisions, the Service participated in a joint Service-State review of the controls employed to safeguard against improper disclosure of information. As a result of the review, new and revised guidelines for States to follow in the use and protection of federally supplied information were approved for inclusion in subsequent Federal-State exchange agreements.

A new approach for reviewing regional financial plans has resulted in a significant reduction in travel costs for this function. Under the new system, proposed plans are first reviewed in the National Office by budget analysts in each area of budgetary responsibility. The analysts develop a point list recommending adjustments, enumerating items in need of additional information, and reporting on the general status of each planned activity. A senior budget official is briefed on the results of the review, and a copy of the list is supplied to the region to help them prepare for onsite review. The onsite review is conducted only by the senior official compared to the three-member teams formerly used, and onsite review time has been reduced from 10 days to 4 days.

#### Informing and assisting taxpayers

The Service conveyed its philosophy of tax administration in a "personal letter" to American taxpayers which accompanied distribution of individual tax forms in December 1967. Along with rights and obligations of taxpayers were listed some of the responsibilities of the Internal Revenue Service: evenhanded, reasonable, and courteous treatment of taxpayers; vigorous enforcement; and prompt action on taxpayer problems. With the help of taxpayers' views, the Service has sought to provide better service and to make tax compliance as easy as it can be and thereby encourage taxpayers to cooperate fully in the joint endeavor of achieving fair, prompt, and economical tax administration.

*Public information program.*—The need to exercise ingenuity in finding inexpensive means to accomplish program objectives was particularly critical due to fiscal 1968 budgetary restraints. Two examples of getting the job done effectively and economically are the annual TV half-hour presentation on how-to-file and a new 30-minute film on automatic data processing, intended for tax practitioners. Both items were prepared at minimum cost through the use of considerable film footage made previously. Tax information was provided to private firms and commercial banks for use in customer service booklets and commercial bank newspaper advertisements, thereby reaching new and larger audiences of taxpayers. Tens of millions of taxpayers were served throughout the year by articles and feature stories providing tax return guidance in books, magazines, and newspapers. Question-and-answer columns were carried by more than half of all daily newspapers during the filing season.

Since the benefits of computer processing are lost to the extent



incorrect information is fed into the machines, the taxpayer error prevention campaign was greatly expanded in fiscal 1968. In addition to providing TV and radio information about avoidable errors, the importance of accuracy on returns was stressed in news releases, magazine articles, question-and-answer columns, and on some 50,000 mail-truck posters. Throughout the filing period, error rates were computed on a weekly basis for the five principal types of individual and business taxpayer errors. By having these error rates available, district offices were able to select for publicity the rates of greatest local concern and potential improvement.

*Taxpayer assistance program.*—In fiscal 1968 the Service concluded a 3-year program of selection and special training of approximately 900 taxpayer service representatives for the specific purpose of providing year-round service to taxpayers in 493 Service office locations. As a further aid, 57 taxpayer service representatives provided itinerant service at 141 office locations not having a permanent taxpayer service staff. The presence of these employees on publicized days of the week prevented the inconvenience previously experienced by taxpayers who visited or called the office only to find all technical employees out on official business, and conserved the costly expenditure of technical time formerly used in providing taxpayer assistance.

Year-round service to taxpayers increased for the fourth consecutive year when 26.6 million taxpayers telephoned or visited Service offices in fiscal 1968, an increase of 300,000 over last year. Telephone inquiries continued to comprise the bulk of the total with 17 million taxpayers (64 percent) serviced in this way.

*Tax forms.*—The success of the self-assessment system depends in part upon the quality of tax return forms and related instructions to taxpayers. Continued attention was devoted to forms improvement in fiscal 1968 and activity remained high. Among the factors which made new or revised forms necessary were: (1) The Revenue and Expenditure Control Act of 1968, passed in June 1968, but containing retroactive features making prompt distribution of revised forms essential; (2) changes in the rules for making tax deposits; (3) changes in the social security laws; (4) changes which extended direct filing; and (5) changes in the law and rules relating to the interest equalization tax.

Included among the new tax forms was form 1040X, which provides a simple means for a taxpayer to correct any erroneous information reported on his original income tax return. At the same time it supplies information required for expeditious processing of amended overpayment returns and thereby accelerates issuance of refund checks.

*Tax rulings.*—The National Office interprets the tax law and issues letter rulings on specific sets of facts in response to inquiries from taxpayers or their representatives. Technical advice is also provided to district directors on technical or procedural questions which cannot be resolved at the local level on the basis of law, regulations, or other definitive information. During fiscal 1968, 26,585 requests for letter rulings and 3,222 requests for technical advice were met.

*Regulations program.*—Twenty-eight final regulations, three temporary regulations, and 22 notices of proposed rulemaking, relating to matters other than alcohol and tobacco taxes, were published in the



"Federal Register" during the year. Five public hearings attended by over 400 persons were held on proposed regulations.

### Personnel

The task of finding or reassigning qualified personnel for professional positions has been quite challenging for the past 3 years, and yet in fiscal 1968, a year of relative austerity, appreciable gains were made, especially in the number and quality of revenue agents and tax technicians. Many vacancies were filled early in the year through an aggressive recruitment campaign. As a result of the budgetary reductions, tight restrictions were placed on college recruitment and recruitment for enforcement positions during the second half of the year.

The concentration in seven service centers of returns processing operations formerly performed in 58 district offices resulted in a heavy demand on service center labor markets. Over 100,000 applications for employment were reviewed to select 15,000 seasonal employees needed to fill card punch operator, clerk, and tax examiner positions required for the filing season workload.

Over the past few years, the Service has rapidly increased its programs to provide employment for economically and educationally disadvantaged young people. These programs, funded largely by sources other than the Service, provide each enrollee with direct financial benefits and an introduction to the world of work. In June the Service had hired 1,345 disadvantaged youngsters between the ages of 16 and 21 under the Youth Opportunity Program. All Service supervisors received a booklet developed by the Service on supervising the disadvantaged. This special guide, entitled "Adjusting to the World of Work," was highly successful, and was later reprinted by the Civil Service Commission for distribution to other Federal offices.

This year there has been special success in the hiring and training of the handicapped. Civil Service Commission Chairman John W. Macy, Jr., honored the Service with two awards: one to the agency, and the other to an individual employee. Service centers are among the leading employers of the handicapped. The Governor of Massachusetts honored the North-Atlantic Service Center with a Citation for Meritorious Service, largely for its achievements in the employment of the mentally restored. The Director of the Southwest Service Center received the John E. Fogarty public personnel award in recognition of his devotion to the program for hiring the handicapped.

### Training

The Service recently has developed several programs aimed at improving its ability to administer specific areas of the law. An automatic data processing course acquaints revenue agents with the operations of the ADP system and teaches them how to use the information in the system when auditing tax returns. Training in international issues prepares Service employees to apply the provisions of tax law that affect foreign taxpayers with income in the United States and U.S. taxpayers with foreign income. The large case training program helps revenue agents conduct effective team audits of corporate giants, while the advanced training program for revenue officers concentrated on sophisticated legal collection problems.

The Service annually presents tax education institutes, usually 2 days each, during the tax filing period. These are for professional tax practitioners and anyone else who helps others fill out their tax returns. The institutes have been expanding in the past few years, with over 35,000 persons attending in 1968.

Since the International Tax Seminars began in 1965, the Service has steadily increased its contribution in training employees of participating countries in tax matters. Technical assistance, including the use of onsite training advisors, has been given to countries requesting aid in planning and implementing institutional reform. Training programs, conducted in English, Spanish, and Portuguese increased in both amount and types of training offered.

#### **Internal revenue collections and refunds**

*Gross collections.*—Fiscal 1968 internal revenue collections reached a new high of \$153.6 billion, an increase of \$5.3 billion (3.5 percent) over fiscal 1967 collections. A monthly record was set in April 1968, when almost \$21 billion was collected, including record monthly receipts of \$7.6 billion in individual income taxes (other than withheld).

Individual income tax payments showed a particularly sharp increase this year. Individual income tax payments (including both amounts withheld by employers and amounts paid by individuals with their returns) increased by \$8.8 billion (12.6 percent) to a total of \$78.1 billion. Individual income tax collections accounted for slightly over one-half of total collections in fiscal 1968, compared to 47 percent in fiscal 1967.

Corporate income tax payments totaled \$29.9 billion, a decline of \$5.0 billion (14.4 percent) from last year. The Revenue and Expenditure Control Act of 1968, approved June 28, 1968, was enacted too late in the year to have an effect on tax revenues for the 12 months ended June 30, 1968. The retroactive application of the act, increasing the tax rate by a 10-percent surcharge on corporate income tax from January 1, 1968 (and on individual income tax from April 1, 1968) will be reflected in fiscal 1969 collections.

Increases in both the Federal Insurance Contributions Act and the Self-Employment Contributions Act tax rate and in the amount of income on which the tax is imposed helped raise the amount of employment taxes collected over last year. The total of \$28.2 billion collected was \$1.3 billion (4.7 percent) higher than fiscal 1967 collections.

Excise tax collections showed a moderate increase of \$0.2 billion over last year.

Gross collections by detailed categories from 1936-68 are contained in the Statistical Appendix to this annual report.

*Refunds.*—The number of refunds of all classes of tax totaled 51.9 million in fiscal 1968, a 5.9-percent increase over the prior year. These refunds covered tax overpayments of \$11.3 billion to which was added interest of \$121 million. The increase in principal refunded was \$1.8 billion, and in interest paid \$0.2 million. The ratio of interest to principal declined from 1.27 percent in fiscal 1967 to 1.07 percent in fiscal 1968.

**Receipt and processing of returns**

*Number of returns filed.*—A total of 107.6 million returns was filed in fiscal 1968, an increase of 2.2 million. The largest increase for any single type of return filed was for form 1040, which increased to 54.1 million, 2.1 million more than last year. The number of forms 1040A decreased by 0.5 million to a total of 18.6 million.

*Automatic data processing.*—As of June 30, 1968, the master file maintained on magnetic tape at the National Computer Center in Martinsburg, W. Va., contained 6.7 million business accounts and 81.1 million accounts for individual taxpayers. The feature of the system under which all transactions of each taxpayer are recorded in one place is providing a truly effective information base from which to administer the tax laws and to assure fair and impartial treatment of all taxpayers.

The phase-in of the program under which taxpayers file their individual returns directly with the service centers continued in 1968 and will be completed with returns filed in 1970. In the Southeast Region, beginning in January 1968, all individual income tax returns, whether fully paid or disclosing a balance or a refund due, were filed directly with the service center. In the other six regions taxpayers requesting refunds were asked to file their returns directly with service centers. Direct filing of selected quarterly and annual business returns is also progressing on schedule.

**Enforcement activities**

Service operations in fiscal 1968 were severely affected by the reductions in Federal expenditures imposed by Public Law 90-218. The budget cuts first proposed were very large, and demanded radical action. Before these cuts were announced the Service had already hired people to fill most of the additional enforcement positions authorized under the fiscal 1968 appropriation, as well as most of the estimated attrition losses for the entire year. Laying off these new employees would have seriously damaged morale, and very likely would have affected the future ability of the Service to recruit personnel; hence, reductions had to be taken in other areas, which upset the balance of Service programs and operations.

*Examination of returns.*—For the second consecutive year computers were used nationwide by the Service to identify returns most in need of examination. To strengthen this essential first step in the audit program, machine selection criteria are continually updated to include most recent Service experience and operations research results. Computer screening of returns for examination is a good example of the release of valuable technical manpower for more productive work, in this case the examination of returns.

Returns are audited either by field audit, conducted by revenue agents at the taxpayer's place of business or home, or by office audit, performed by tax technicians in Service offices either by interview or correspondence. This year fewer returns were examined caused in part by the rising trend in complexity of returns filed. The 2.9 million returns examined in fiscal 1968 is a 6.6-percent decrease from the 3.1 million examined in fiscal 1967.



Additional taxes recommended in fiscal 1968 totaled \$2.9 billion—somewhat below the \$3.3 billion recommended in fiscal 1967 and \$3.1 billion in fiscal 1966.

*Mathematical verification.*—About 75 million individual income tax returns were mathematically verified in fiscal 1968 as compared to about 65 million in fiscal 1967. Among the reasons for the increase of 9.6 million (14.6 percent) are: more returns filed this year; a carry-over of unprocessed returns from the last half of fiscal 1967 into this year; and more expeditious processing of returns in the last half of fiscal 1968.

Correction of taxpayers' arithmetic errors resulted in increases of tax liabilities of \$267 million and decreases of \$136 million for a net tax yield of \$131 million.

*Delinquent returns.*—There was a slight increase in results from the Service's delinquent returns program in fiscal 1968. A total of 770,587 delinquent returns were secured, representing \$293.1 million in previously unreported tax, interest, and penalties.

*Summary of additional taxes from direct enforcement.*—A detailed comparison of additional tax assessments resulting from direct enforcement during the last 2 fiscal years is presented below:

Sources	In thousands of dollars	
	1967	1968
Additional tax, interest, and penalties resulting from examination.....	2, 256, 933	2, 208, 151
Increases in individual income tax resulting from mathematical verification.....	207, 605	266, 763
Increases in individual income tax and penalties resulting from verification of estimated tax payments claimed.....	103, 522	161, 721
National identity file.....	2, 271	n.a.
Tax, interest, and penalties on delinquent returns.....	262, 665	293, 143
Total additional tax, interest, and penalties.....	2, 832, 996	2, 929, 778
Claims disallowed.....	392, 199	326, 067

<sup>†</sup> Revised.

n.a. Not applicable.

*Tax fraud investigations, indictments, and convictions.*—A total of 9,739 fraud investigations were completed during the year, with prosecution recommended in 1,620 cases. Included among these were 1,566 investigations of racketeers, with prosecution recommended in 709 cases. There was a sharp drop in prosecution recommendations in wagering cases—586 in fiscal 1968 versus 941 in fiscal 1967—due primarily to Supreme Court decisions in the cases of James Marchetti and Anthony M. Grosso. In these cases, while the Court held the wagering tax provisions constitutional, it also held that persons who properly assert their constitutional privilege against self-incrimination may not be criminally punished for failure to comply with the requirements. While civil enforcement is continuing in this area, criminal prosecution has been sharply affected.

Indictments were returned against 1,026 defendants in tax fraud cases in fiscal 1968. Pleas of guilty or *nolo contendere* were entered for 638 defendants in cases reaching the courts, 118 defendants were convicted after trial, 39 were acquitted, while cases against 944 were



nol-processed or dismissed, including 879 defendants in wagering tax cases.

*Collection of past-due accounts.*—Program changes necessitated by budgetary limitations reduced the number of past-due accounts established during fiscal 1968 to 2.2 million. This was more than half a million, or 21 percent, below fiscal 1967. The amount of past-due tax involved, \$2,052 million, was \$80 million below last year. Accounts closed in fiscal 1968 were 2.4 million. While this was 400,000 fewer than were closed in fiscal 1967, it was 200,000 more than were established during the year. Of even greater significance, the \$2,054 million of past-due taxes in the accounts closed was only \$12 million less than in fiscal 1967. For the third consecutive year, the yearend inventory declined, with 608,000 accounts in inventory valued at \$1,379 million.

Continued effort was made to increase the use of the ADP system to collect and close past due accounts. For the second time on a nationwide basis, names of individuals owing income or business taxes for periods prior to the Service's ADP system were input into the computer so that any prior liability could be deducted before a refund was made. Collections under this system totaled \$7 million this year. The decline from the \$12 million collected by this means last year was expected, since both the amount and the number of accounts outstanding will decline as the program continues. In the related program covering accounts becoming past due after the ADP system came into being, approximately \$168 million was collected.

*Alcohol and tobacco tax administration.*—The primary effort in the alcohol and tobacco tax enforcement area remains concentrated in the Southeastern States. In 1968, 86 percent of illegal distilleries seized and 93 percent of mash seized were in the Southeast Region. There is strong evidence that the concentrated program in these States, known as Operation Dry-Up, is directly responsible for increased sales of tax-paid alcoholic beverages in the areas where it is in effect. Thus, tax revenue is being generated at the same time that production of untaxed spirits is being curtailed.

Nationwide, seizures of illegal distilleries and arrests decreased during fiscal 1968. This decline is in part the result of prior successes under Operation Dry-Up, and in part results from the continued diversion of manpower from the illicit liquor program to the firearms and organized crime drive programs. The following table provides information on nationwide seizures and arrests during the last 6 fiscal years.

Fiscal year	Number of of stills seized	Gallons of mash seized	Arrests for liquor law violations
1963.....	6,213	3,092,600	8,153
1964.....	6,837	3,123,800	7,897
1965.....	7,432	3,637,900	7,171
1966.....	7,685	3,664,900	6,629
1967.....	6,608	3,125,400	6,148
1968.....	5,899	2,697,300	4,884

The alcohol and tobacco tax laboratory of the National Office examined 2,200 samples in connection with criminal cases during fiscal 1968 using such techniques as atomic absorption spectrophotometry

and neutron activation analysis. The samples examined were in the areas of illicit alcohol production, firearms control, tax depletion allowances, racketeering, and art authentication. Development of improved techniques and the installation of modern laboratory equipment made it possible to analyze approximately 25 percent more samples this year with no significant increase in personnel.

The National Laboratory and regional laboratories analyzed 8,120 samples of illicit alcohol during the year. This represented a decrease from 8,710 in 1967 and 9,260 in 1966. In contrast, narcotic drug samples examined increased to 11,500 in fiscal 1968, compared to 8,382 in 1967 and 6,400 in 1966.

The amount of distilled spirits tax determined continued its upward trend with 227.7 million tax gallons of spirits being removed from bonded storage upon determination of tax, an increase of 2.9 percent from fiscal 1967. Production of distilled spirits increased from 873 million tax gallons in fiscal 1967 to 905.5 million tax gallons in fiscal 1968.

*Firearms law enforcement.*—The increased activity in the administration of the firearms laws parallels the rising concern of the general public over firearms, their use in crime, and their control. Excluding the Southeastern Region, where Operation Dry-Up is in force, approximately 40 percent of total alcohol and tobacco tax special investigator manpower was expended on firearms investigations in fiscal 1968. Investigations conducted resulted in 919 criminal cases submitted for prosecution, 449 arrests, and 1,092 firearms seized. In addition, 33,786 firearms record inspections were made at the premises of Federal Firearms Act licensees. Stemming from these inspections, 5,652 referrals were made to State and local authorities reporting possible instances of noncompliance with State and local laws.

*Appeals and civil litigation.*—For the first time in years, case receipts in regional appellate divisions showed a significant decline from the prior year. Total receipts were 33,213, a 9-percent decrease from the 36,664 received in fiscal 1967. Total case disposals were 35,046, a decrease of 2,709. The excess of disposals over receipts reduced the June 30, 1968, inventory to 31,264 cases, compared to 33,097 cases a year ago.

Civil cases in the trial courts were won or partially won by the Government during fiscal 1968 as follows: in the Tax Court, 80 percent; in the Court of Claims, 73 percent; and in the U.S. district courts, 71 percent. The Government won, in whole or in part, 192 of the 243 civil tax cases decided by courts of appeal (exclusive of collection litigation and alcohol and tobacco tax legal matters).

The Supreme Court rendered two decisions in Tax Court cases during the year. The Court decided both for the Government, reversing an appellate court decision in one and affirming the other. The Government's position was also sustained in the two decisions rendered by the Supreme Court in tax refund suits in fiscal 1968.

#### **International activities**

Activities of the Service in the international theater embrace three major programs: (1) Administration of the tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corpora-

tions; (2) negotiation and administration of tax conventions with foreign countries, established to prevent double taxation of individuals and corporations subject to taxation by two or more countries; and (3) providing assistance requested by developing countries in upgrading and improving their tax administration systems.

*International operations.*—The Service maintains foreign posts in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Sao Paulo, and Tokyo. These overseas offices are managed by revenue service representatives who perform functions for all branches of the Service. They assist U.S. citizens overseas in complying with their U.S. tax responsibilities and, as part of their normal duties, they audit returns, collect taxes, and maintain close liaison with tax authorities of foreign governments on the administration of tax treaties, exchange of information and other matters of mutual interest. Further assistance to U.S. citizens living abroad was provided for the 1968 filing period by: (1) visits by Service personnel to 50 countries, plus Guam, Wake, Okinawa, and the Panama Canal Zone, and (2) classroom instruction at 13 military tax schools in Canada, the Canal Zone, Europe, and the Far East to some 850 servicemen. Military personnel completing these courses were assigned as tax assistants within the military community. This joint effort on the part of the Service and the Department of the Army helped to expand the scope of the tax assistance program by making available income tax advice to about two-thirds of the Armed Forces abroad.

*Tax conventions.*—The Service participated in negotiations with seven countries concerning bilateral income tax conventions and with two countries concerning bilateral estate tax conventions. During fiscal 1968 the Senate ratified, subject to certain reservations, income tax conventions with France, Brazil, and the Philippines. Instruments of ratification of a supplementary income tax convention with Canada were exchanged on December 20, 1967, and instruments of ratification of an income tax convention with Trinidad and Tobago were exchanged on December 19, 1967. Instruments of ratification of a protocol to an estate tax convention with Greece were exchanged on October 27, 1967.

*Foreign tax assistance.*—A fast-developing aspect of the foreign tax assistance program has been the promotion of institutions for the exchange of ideas, and experience in tax administration among the principal tax administrators in a particular region. The prototype for such organizations, the Inter-American Center for Tax Administrators, held its second annual general assembly in Buenos Aires in May 1968, and now has members from 20 countries of this hemisphere. The success of this initial Center has generated considerable interest in the potential of similar organizations for other parts of the world, as evidenced by recent Service participation in discussions concerning such organizations for both Asia and Africa.

During the 5 years of the foreign tax assistance program, one of the principal points of emphasis has been the encouragement of participating countries to develop their own in-service training programs. Signs of the success of this objective are now evident. In Latin America in 1963, only one country had in-service training. By the end of fiscal



1968, 15 countries of that region had such programs on a permanent basis.

### Planning activities

The planning function of the Service covers every aspect of tax administration. The extremely low cost of operating the Service per dollar collected, and the high effectiveness of the Service in collecting the great majority of taxes owed without the necessity for direct enforcement can be credited in part to the successful application of planning done in prior years.

*Long-range planning.*—The planning-programing-budgeting system (PPBS) continues to be the Service's management tool for the examination and evaluation of major program alternatives and the long-range planning of Service activities. The PPB system was refined to focus on major program issues, reducing the amount of program planning material requiring executive attention. During fiscal 1968 PPBS analytical techniques were not only used to project fiscal 1969–74 program plans, but choices were also developed for effecting the fiscal 1968 appropriation reductions with the least loss in tax revenue yields.

All Service studies and significant staff projects were assigned relative priorities; controls were instituted to avoid duplication of effort and to assure that scarce research and staff resources were expended on only the most vital studies and projects. However, due to the fiscal 1968 economy reduction, sharp temporary curtailments had to be made in research projects.

*Current research program.*—Research activities continued to be directed primarily toward solutions of administrative problems involved in the tax system. While the chief objective of all research projects was to effect increased taxpayer compliance or an overall improvement in tax administration, the impacts of proposed changes on the taxpayer reporting burden were kept constantly in mind; in fact, a significant proportion of research activities was concentrated on improving instructions and tax forms to make the overall taxing process more understandable and less burdensome to taxpayers.

Among the compliance oriented studies conducted during the year were the following: (1) Continuation of the nationwide survey of taxpayer compliance in reporting interest from the redemption of Series E savings bonds; (2) study of compliance among agricultural workers in reporting wages; (3) a study to pinpoint more specifically characteristics of employers who fail to fully comply with the requirements for withholding and paying income and social security taxes; (4) a study to determine the extent to which employers comply with the Federal unemployment tax laws; and (5) a followup on last year's study of payees who are required, but fail, to supply their taxpayer identifying number to payers.

In connection with the Revenue and Expenditure Control Act of 1968, alternative withholding rates and tables were developed and their impact on relative over- and underwithholding was measured in context with various effective dates for the legislation. Specific



studies and detailed analyses or comments were prepared on the administrative impact of other legislative proposals during the year.

*Systems development.*—Principal emphasis in the systems development area continues to be placed on the short-range problem of improvement of data transcription methods and the long-range problem of the design of a data processing system to satisfy the requirements of the future.

A successful test was carried out on a small scale version of a direct data entry system in the search for an improved data transcription method. This system permits an operator to enter data directly into a computer where the data is internally validated and a signal flashed back to the operator if corrective action is required. Advantages of this technique over conventional keypunching and key verification operations include substantial reductions in key stroke requirements, elimination of much replication of effort in verification, simplified correction procedures, and elimination of the card-to-tape conversion operation. Analysis of the test results indicate that the direct data entry system will increase transcription productivity by more than 25 percent.

#### **Inspection activities**

Protection of the integrity of the Service is a matter of vital concern. Comprehensive internal audit and internal security programs are maintained to furnish the Commissioner and other levels of Service management with the assurance that the highest standards are maintained, and with information required to correct any deficiencies. The internal audit program examines and reports upon all activities and functions of the Service, with primary emphasis on those elements which are most closely related to collection of tax revenues and enforcement of tax laws. The internal security program provides thorough investigation of the character, reputation, and loyalty to the United States of personnel appointed to positions involving taxpayer contact, handling money, and other key Service functions. Allegations of employee misconduct and actual or suspected attempts to bribe Service employees are also investigated under the internal security program.

*Internal audit.*—More than 85 percent of direct internal audit staff time in fiscal 1968 was spent on examinations of data processing, collection, audit, intelligence, and alcohol and tobacco tax functions. Audits of automatic data processing activities are on a continuing basis by internal auditors stationed at each of the seven regional service centers. Actions by management on problem areas detected resulted in significant improvements in operating efficiency and effectiveness and in improved taxpayer relations. Many of the resulting improvements can be measured in terms of their impact on the revenue. For fiscal 1968, these accomplishments are conservatively estimated to total more than \$48 million.

*Internal security.*—During fiscal 1968, a total of 12,081 internal security investigations of all types were completed. In addition, police records checks were made on 3,191 individuals considered for short-term, temporary appointments and on 1,307 persons hired in connection with economic and educational opportunity programs.

Teams composed of internal auditors and internal security inspectors

investigate breaches of integrity involving actual or potential fraud by employees or through collusion between employees and non-Service individuals. One such case involved a practitioner and four employees. The practitioner, who was both an attorney and a CPA, was convicted on 17 counts of paying bribes and gratuities to the four employees, and was sentenced to 9 months imprisonment. Three of the four employees pleaded guilty to receiving money from the practitioner, and the fourth was awaiting trial at the fiscal yearend. All of the employees have been separated from the Service. Another case resulted in criminal action against 25 employees, 10 of whom have already been convicted. In this case, tax deficiencies totaling more than \$7 million have been proposed as a result of the investigation.

In January 1968, 26 employees and former employees of the Service and one tax practitioner were arrested on charges of trying to bribe an inspector to furnish them confidential information from inspection files or to stop certain investigations. From the inception of these bribe attempts, the inspector worked closely with his superiors and the U.S. Attorney's Office. Following the arrests, the U.S. Attorney impaneled a special grand jury to further probe these corrupt activities. As a result, four more employees, four additional practitioners, and one taxpayer were arrested. At fiscal yearend, investigation was continuing, hundreds of questionable tax returns were being scrutinized, and prosecution actions were pending on all 36 defendants.

Service investigations and arrests are in line with its policy to police itself by a constant and vigorous campaign to achieve and maintain high integrity in tax administration. One of the most rewarding aspects of the work of inspection is that many investigations result in the exoneration of wrongfully accused employees. As in prior years, the majority of employees suspected or accused of wrongdoing were cleared after investigation.

### **Bureau of the Mint<sup>1</sup>**

The major functions of the Bureau of the Mint are the manufacture of coins of the United States and their distribution to the Federal Reserve banks and branches. Other functions involve the safeguarding, processing, and movement of gold and silver bullion for the Treasury; the manufacture of medals of a national character; and as scheduling permits, the manufacture of foreign dies and coins on a reimbursable basis.

Headquarters for the Bureau of the Mint are located in Washington, D.C. The operations involved in carrying on the business of the mint are performed in the several field offices. Mints are located in Philadelphia, Pa., and Denver, Colo.; assay offices are in New York, N.Y., and San Francisco, Calif.<sup>2</sup>; bullion depositories are in Fort Knox, Ky., and an adjunct of the New York Assay Office in West Point, N.Y.

#### **Domestic coinage**

During fiscal 1968 the three coinage facilities processed approximately 24,450 short tons of coinage metal into 5.9 billion finished coins

<sup>1</sup> Additional information is contained in the separate "Annual Report of the Director of the Mint."

<sup>2</sup> The San Francisco Assay Office also operates as a mint.

with a face value of nearly \$478 million dollars. These amounts include 1,166,193 special mint sets (1967), and 1,272,070 proof coin sets (1968), or a total of 12,191,315 individual coins with a face value of \$2,218,819.33.

Proof coin production was resumed for the first time since calendar 1964 and for the first time in mint history at a location other than the Philadelphia Mint. The 1968 proof coin sets were manufactured at the San Francisco Assay Office and all coins in the set bear the "S" mint mark. The Bureau of the Mint began accepting orders for the 1968 proof coin sets November 1, 1967, and by May 1968, orders had been received to fill the maximum production capacity of 3 million sets.

The distribution by denomination of the coins produced in fiscal 1968 differs substantially from that of the past 2 years due to current requirements of the economy. The 1-cent coins which continued as the most largely produced, accounted for 64 percent of the total production in fiscal 1968, increased from only 40 percent in 1967 and 32 percent in 1966. The 1-cent production of more than 3.749 billion pieces is the greatest single year production for this denomination in mint history. Quarters on the other hand decreased from 25 percent of total production in fiscal 1966, to 20 percent in 1967, and 13 percent in 1968. The remaining distribution of the 1968 production is as follows: dimes, 16 percent; half dollars, 5 percent; and 5-cent pieces, 2 percent.

All subsidiary coins (dimes, quarters, and halves) were of the composite type authorized by the Coinage Act of 1965 (31 U.S.C. 391). The composite quarters and dimes consist of three layers of material. The metallic composition of the outer layers is an alloy of 75 percent copper and 25 percent nickel bonded to an inner core of pure copper. The composite half dollar also consists of three layers of material. The metallic composition of the outer layers is 80 percent silver and 20 percent copper bonded to an inner core of approximately 20 percent silver and 80 percent copper, giving the coin an overall silver content of 40 percent. Cents were made from bronze with a 95 percent copper-5 percent zinc composition. Nickels were made from a 75 percent copper-25 percent nickel alloy.

The Bureau of the Mint delivered 10.142 billion new coins to the Federal Reserve banks and branches in fiscal 1968. This exceeded by over 2.7 billion pieces the previous high of 7.4 billion pieces delivered in fiscal 1966. Most of this increase is due to shipments of over 2.3 billion pieces to replace inventories containing silver coin which are not being recirculated by the Federal Reserve System. Over 380 million clad quarters were also shipped to the FRB after they had been removed from the silver coin.

#### Foreign coinage

Foreign coinage production of 249 million pieces during fiscal 1968 was the highest in the last 20 years with the exception of fiscal years 1960 (312 million pieces) and 1963 (295 million pieces). During fiscal 1968 the mint produced foreign coins for Costa Rica, El Salvador, Panama, and the Philippines. For Costa Rica, two denominations of stainless steel coins were produced. These were the 5 centimos and 10



centimos in quantities of 10.86 million and 5.5 million pieces, respectively. For El Salvador, the mint furnished 10 million 5 centavos and 2 million 10 centavos both of a 75 percent copper 25 percent nickel composition.

For the Government of Panama, the mint manufactured the following coins for general circulation: 7.6 million 1 centesimo which were bronze of a 95 percent copper 5 percent zinc composition; 2.6 million 5 centesimos of a 75 percent copper 25 percent nickel composition; and 300,000 half balboas which were silver clad, averaging 40 percent silver 60 percent copper. Also produced by the mint for the Government of Panama were 19,983 Panamanian proof sets containing one each of the following denominations: 1 balboa;  $\frac{1}{2}$  balboa;  $\frac{1}{4}$  balboa;  $\frac{1}{10}$  balboa; 5 centesimos; and 1 centesimo.

For the Philippine Government during fiscal 1968, the mint furnished 10 million 95 percent aluminum 5 percent magnesium 1 centavos; 40 million 5 centavos which were 60 percent copper 40 percent zinc; and 100 million 10 centavos, 40 million 25 centavos, and 20 million 50 centavos which were all 70 percent copper, 18 percent zinc, and 12 percent nickel.

In addition to the finished coins which were produced for foreign governments in fiscal 1968, the Bureau of the Mint manufactured two sizes of coinage blanks for the Government of Brazil. The blanks were 23 mm. and 25 mm. in diameter, for the 10-centavo and 20-centavo coin, respectively. Deliveries of these blanks during the fiscal year amounted to 10.8 million pieces of which 6.3 million were of the 10-centavo size and 4.5 million were of the 20-centavo size.

#### **Silver activities**

In connection with the Treasury's program to make silver bullion available for industrial use, the Bureau of the Mint recovered 30.8 million fine ounces of silver from the melting of \$38 $\frac{1}{2}$  million of silver quarters and \$41 $\frac{1}{2}$  million of silver dimes which had been separated from inventories of coins not recirculated by the Federal Reserve System. At the end of fiscal 1968 the Bureau of the Mint had in its inventories circulated coins estimated to contain silver coins equivalent to 114.7 million fine ounces of silver. In addition, the Federal Reserve banks and branches had in their inventories circulated coins estimated to contain silver coins equivalent to 127 million fine ounces of silver. These inventories were the result of a program initiated in fiscal 1968, for recovering the silver from silver coin. This remaining silver will be recovered during fiscal years 1969 and 1970, as the silver coins are separated from the clad coins and are melted.

In August 1967, the handling of sales of Treasury silver for industrial use was transferred to the General Services Administration. Approximately 98 million fine troy ounces were contracted for sale during fiscal 1968. The processing of this silver to a deliverable state was accomplished by the Bureau of the Mint.

In fiscal 1968 the Bureau of the Mint redeemed silver certificates equivalent to 89.3 million ounces of silver under the silver certificate redemption program. Of this total, 4.9 million ounces were redeemed at the San Francisco Assay Office while the balance of 84.4 million ounces were handled through the New York Assay Office. More than



30,000 individual transactions were completed at these two offices during the fiscal year. On June 24, 1968, the final exchanges were made under this program.

#### **Management improvement program**

The Bureau of the Mint has an active management improvement and cost reduction program under the direction of management and operating officials in the Office of the Director, and in each of the mints and assay offices. Major efforts of these officials are directed toward achieving efficient maximum production of domestic coins and it has been largely through their efforts that this has been accomplished for the past several years.

Savings of \$831,000 were realized during fiscal 1968 under the program. These savings represented an increase of \$113,000 or 15 percent over the goal established for fiscal 1968, and were attributable to further improvements in technology and operating procedures and continuing programs for developing personnel in management and other skills.

### **Bureau of Narcotics**

Since its establishment in 1930, the Bureau of Narcotics had been the agency within the Treasury Department charged with administering Federal laws controlling narcotic drugs and marihuana. On April 8, 1968, the President's Reorganization Plan No. 1 of 1968 gained congressional approval and the Treasury Department's Bureau of Narcotics was transferred to the Justice Department and consolidated with HEW's Bureau of Drug Abuse Control to form the new Bureau of Narcotics and Dangerous Drugs. Therefore, this report covers the activities of the Bureau of Narcotics for the first 9 months of the fiscal year 1968.

While still an arm of the Treasury Department, the Bureau of Narcotics' responsibility for regulating the legitimate supplies of narcotic drugs for medical and scientific purposes involved supervision of U.S. imports and exports of these drugs as well as control over the manufacture and domestic trade in narcotic drugs to prevent diversion into illicit channels. Enforcement duties included apprehension of interstate and international violators of narcotic laws and cooperation with State and local law enforcement agencies. At the request of foreign police authorities, Bureau agents assisted in mutually beneficial investigations of international traffickers. Further acceleration of the expanded program in cooperation with foreign countries notably reduced smuggling of narcotic drugs into the United States during the first 9 months of the fiscal year.

#### **Cost reduction and management improvement**

During fiscal 1968, the Bureau placed in reserve \$203,405 which had been taken from current operating programs. The reserve was applied against the total cost of pay increases effective October 1967. An additional \$88,000 supplemental appropriation was later requested to cover the pay increase costs.

### Training

Emphasis on the interagency program of training continued. Fifty Bureau employees participated in various programs which included technical, managerial, and supervisory instruction. Of these 50 persons, 26 received training from interdepartmental programs. Bureau officials attending the planning-programing-budgeting seminars broadened their insight concerning current developments in administrative matters. Participation in this program is continuing. Four Bureau employees also received nongovernmental training in supervisory and technical areas.

The Bureau of Narcotics Training School conducted 10 intensive 2-week sessions during the first 9 months of fiscal 1968. Eight sessions were held in Washington, D.C., with one in Mahwah, N.J., and another in Monterey, Calif. A total of 600 local and State law enforcement officers were trained in narcotic controls at these sessions.

Bilingual Bureau agents conducted a special 2-week course on narcotic controls, particularly the abuse of cocaine, heroin, and marihuana, in the early part of fiscal 1968. The course, taught in cooperation with the International Police Academy for the Agency for International Development, is part of the Bureau's intense program of cooperation with Latin American countries. Bureau of Narcotics instructors also addressed senior police officers at regular sessions of AID's International Police Academy.

During the first part of fiscal 1968, the Bureau of Narcotics continued its policy of providing narcotic training by participating in special workshops and seminars. These sessions, which were held at Little Rock, Ark., Hershey, Pa., Baton Rouge, La., and St. Petersburg, Fla., were attended by a total of 236 local and State law enforcement officers.

The school staff also lectured regularly before the U.S. Air Force Office of Special Investigations, the Federal Bureau of Investigation's National Academy, the Harvard School of Legal Medicine, the Bureau of Drug Abuse Control, the International Police Academy, and AID.

### Information

The demand for information about narcotic drugs and marihuana increased during fiscal 1968. The Bureau met this demand by supplying over 48,685 publications as a public service to more than 47,000 students, teachers, libraries, parents, individuals, and agencies.

As part of the Bureau's continuing education program, Bureau agents addressed 579 groups consisting of approximately 50,000 persons.

The traveling exhibit relating to Bureau responsibilities was displayed at the National Association of Retail Druggists convention in Houston, Tex., which was attended by more than 2,500 persons. Bureau agents were available to discuss registrant responsibilities and distribute literature. In addition, smaller exhibits were displayed at various State and local conventions and meetings. For example, the Bureau cooperated with the Minnesota State Pharmaceutical Association and the Florida Medical Association by displaying exhibits at their annual meetings at St. Paul and Bal Harbour, respectively.

The Bureau of Narcotics also launched several special information projects in the first part of fiscal 1968. First, it provided technical assistance to the International Association of Chiefs of Police in their production of a narcotic film, "Fight or Flight." Throughout the year, the Bureau also contacted and cooperated with numerous national organizations to assist in the planning or implementation of a narcotic drug education program. Two of the most significant examples involved cooperation with the National Catholic Youth Organization, whose program reaches more than 6 million persons, and the American Legion, which has made narcotic information available to nearly 3,500,000 Legion and auxiliary members.

As part of the Bureau's efforts to counteract the misinformation available on marihuana, a "Marihuana Task Force" was appointed in November 1967. The task force consisted of four Bureau agents who had been specially trained in the problem of marihuana—its abuse and dangers. The four men were assigned to various areas of the country where the more vocal pro-marihuana groups and individuals were located. The task force received executive direction from Bureau headquarters in addition to all new articles, papers, and speeches dealing with the subject. This well-informed team used all avenues of communication—speeches, conventions, seminars, symposiums, conferences, resolutions, etc.—to get the message to the American public. In the short time between November 20 and April 8, 1968, the task force had presented speeches to more than 10,000 persons, had begun to distribute literature about marihuana and narcotic drugs, had participated in several seminars and conferences, and had made the initial contacts with educational and organizational leaders in their regions.

#### **Enforcement activities**

Investigations by Bureau agents of the international narcotic traffic which affects the United States continued on an intensive basis in cooperation with police authorities of many countries. Listed below are examples of exceptionally significant investigations completed between July 1, 1967, and the date of the Bureau's transfer to the Department of Justice.

U.S. agents in Bangkok, Thailand, assisted Thai police on August 15, 1967, as they arrested three men who were delivering approximately 40 kilograms of morphine base to an undercover agent.

On August 25, 1967, a U.S. narcotic agent in Naples, Italy, purchased 2 kilograms of morphine base for 1,200,000 lire (\$2,000) from four traffickers as part of an undercover investigation. Three other defendants were arrested the same day by the Italian police and 820,000 lire was recovered.

Based on information received from a U.S. narcotic agent stationed in Lima, Peru, the Chilean police arrested a trafficker in possession of 2 kilograms of cocaine and three intended recipients in Arica, Chile, October 9, 1967. In addition to the narcotics, the police also seized equipment and chemicals used in the processing of cocaine. This case led to other arrests in Arica, Chile, October 13, 1967, when approximately 5,550 grams of cocaine and a fully equipped clandestine laboratory were seized. Two defendants were arrested at that time.



U.S. narcotic agents and the Mexican Federal Judicial Police in Tijuana teamed up to arrest a marihuana trafficker and seize approximately 4 kilograms of marihuana on October 30, 1967. Information gained through this arrest indicated where a large amount of marihuana could be found. Officers proceeded to the spot and found bricks of marihuana wrapped in brown paper. They arrested a union leader in the Tijuana taxicab business and another defendant and seized approximately 716 kilograms of marihuana. Agents learned that all of the marihuana had been shipped from Sinaloa to Tijuana in 50-gallon grease drums, with a 6-inch layer of grease on a plastic cover camouflaging the marihuana.

An undercover U.S. narcotic agent assisted local police and Singapore Customs authorities in October 1967, in the arrest of two traffickers and the seizure of 2,500 grams of opium.

In Beirut, Lebanon, U.S. narcotic agents assisted Lebanese Police arrest two defendants and seize 360 grams of heroin on November 8, 1967. One of the defendants was the sister-in-law of a notorious criminal and the widow of a former major Lebanese heroin trafficker.

Korean Police officers and a U.S. narcotic agent stationed in Seoul, Korea, worked together in an investigation. On November 27, 1967, they arrested four defendants in a remote farm house 175 miles from Seoul and seized a complete clandestine heroin manufacturing laboratory with 120 grams of heroin, 6,000 cc. liquid opium, and assorted heroin-making chemicals.

Narcotic agents in Frankfurt assisted German Police as they arrested two Turkish nationals on December 8, 1967. In addition to arresting the two defendants, the officers seized approximately 7 kilograms of morphine base which had been smuggled into Germany from Turkey by truck.

On January 20, 1968, U.S. narcotic agents in Izmir, Turkey, cooperated with Turkish police to arrest two Turkish nationals and seize approximately 15 kilograms of morphine base.

U.S. narcotic agents joined with the Turkish National Police to arrest six Turkish nationals on March 28, 1968. The arrests and seizure of 250 kilograms of opium took place in the Turkish province of Denizli.

On January 29, 1968, U.S. narcotic agents stationed in Paris, France, assisted the French Police arrest a U.S. citizen, from whom they seized nearly 15 kilograms of marihuana.

U.S. narcotic agents in Mexico, assisting the Mexican Federal Judicial Police, located 60 acres of opium poppy plants in Gral Teran, Nuevo Leon, Mexico, on January 31, 1968. Agents and police arrested two defendants, but are still seeking three others. Upon finding the fields of poppies, the officers called in a contingent of 22 Mexican Army troops who destroyed the illicit crop.

Narcotic agents in Tijuana cooperated with the Mexican Federal Judicial Police to arrest three defendants between February 8 and 10, 1968. At the same time, they seized a total of 233 kilograms, 982 grams of marihuana.

In these and other narcotic cases Bureau of Narcotic agents assisted foreign authorities in the seizure of a total of 1832.5 kilograms of



narcotic drugs and 1390.5 kilograms of marihuana from the illicit traffic in other countries between July 1, 1967, and March 31, 1968.

The following table shows the number of violations of the narcotic laws reported by Federal narcotic enforcement officers.

*Number of violators of the narcotic and marihuana laws prosecuted during the fiscal year 1968, with their dispositions and penalties*

	Narcotic laws								Marihuana laws			
	Registered persons				Nonregistered persons				Nonregistered persons			
	Federal court		State court		Federal court		State court		Federal court		State court	
	1		1		684 27		271 10		273 5		175 6	
	Total.....		2		992				459			
	Years	Months	Years	Months	Years	Months	Years	Months	Years	Months	Years	Months
Sentence imposed.....	7		2		3,200	11	948	4	553	6	347	2
Fines imposed.....					\$21,036		\$10,677		\$6,781		\$25,197	
	Years	Months	Years	Months	Years	Months	Years	Months	Years	Months	Years	Months
Average sentence of imprisonment:												
1968.....	7 3				5 6	6 1	4 4		4 3	12 7	4 3	12 12
Average fine per conviction:												
1968.....					\$31 195		\$39 45		\$25 53		\$144 78	
1967.....												

### Control of manufacture and medical distribution

During the first 9 months of fiscal 1968, the Bureau of Narcotics issued 37 permits to import crude opium and coca leaves. To meet the medical requirements for opium derivatives and cocaine and to supply nonnarcotic coca flavoring extracts, 105,644 kilograms of raw opium were imported from India and Turkey and 181,440 kilograms of coca leaves were imported from Peru.

A total of 546 export authorizations were issued for the export of manufactured narcotics to other countries. The quantity of narcotic drugs exported during the first 9 months of fiscal 1968 was 711,972.26 grams.

There were 1,666 thefts of narcotic drugs, amounting to 84,231 grams reported during the first portion of fiscal 1968.

During the same period of time, 420,638 persons were registered under the Harrison Narcotic Act and the Marihuana Tax Act to engage in lawful narcotic and marihuana activities.

### **International control and cooperation**

The United States is a party to the following conventions, treaties and protocols relating to the international control over narcotic drugs and marihuana: The Opium Convention of 1912 and 1931, the International Protocols of December 11, 1946, November 19, 1948, and June 23, 1953; and the Single Convention of 1961. Additionally, the United States adheres to all of the provisions, so far as possible, of several other international regimes of control even though we are not signatories.

The Bureau of Narcotics continued its international cooperation during fiscal 1968 through participation in several international meetings. Bureau representatives were among delegates attending the Interpol 36th General Assembly in Kyoto, Japan, from September 27, to October 4, 1967, to discuss the events relating to international criminal activity from September 1966 to August 1967. The United States was also among 24 countries represented at the 22d Session of the United Nations Commission on Narcotic Drugs in Geneva, Switzerland, January 8-26, 1968, to review the world drug situation and the events concerning narcotic controls of 1967. Representatives from 24 nations, including the United States met in New Delhi, India, for the U.N. Consultative Group on Opium Problems October 9-21, 1967. Discussions covered the gamut of problems related to the production of opium.

### **Cooperation with State and local authorities**

Excellent cooperation among Federal, State, and local narcotic law enforcement agencies continued with a free exchange of information during the investigation and prosecution of narcotic violators and the routine inspections by State and local authorities. The Bureau's special seminars were held in cooperation with the local, county, and State agencies as a continuing cooperative training program.

### **Drug addiction**

As of March 31, 1968, just prior to the Bureau of Narcotics' transfer from the Treasury Department to the Department of Justice, the total number of active narcotic addicts recorded by the Bureau, as reported by Federal, State, local, and private agencies was 62,624.

## **U.S. Savings Bonds Division**

The U.S. Savings Bonds Division promotes the sale and retention of U.S. savings bonds and U.S. savings notes ("Freedom Shares", first issued in May 1967) and the sale of savings stamps. The systematic buying and continued holding of these savings securities makes an important contribution to the Government's efforts to finance our national debt in a noninflationary manner and broadens the ownership of the Federal debt.

The program is carried out by a relatively small Government staff assisted by a large corps of sales promotion volunteers. Liaison is maintained with all types of financial, business, labor, agricultural, and educational institutions, and with community groups of all kinds. Their volunteer services are enlisted to sell savings bonds through

banks, savings and loan associations, credit unions, certain post offices, and thousands of business establishments and other employers operating payroll savings plans.

Sales of series E and H savings bonds and savings notes during the fiscal year 1968 totaled \$4,940 million, only slightly below the 1967 11-year record of \$4,967 million.

#### Promotional activities

The Share-in-Freedom plan was continued as the theme of the Division's promotional activities in fiscal 1968. Excellent progress was made in promoting the payroll savings plan among industrial employees, Federal, State, and local Government employees, and the military services. Over 2,264,000 persons were enrolled. After taking into account turnover, retirements, and discontinued allotments, there was a net increase of more than a half million savers during the 1968 fiscal year. Over 10 million persons were participating in payroll savings plans as of June 30, 1968. Promotional efforts produced the highest sales since 1946 in small denomination E bonds, bought primarily by payroll savers.

Mr. William P. Gwinn, president of the United Aircraft Corp., directed the 1968 payroll savings effort in industry as chairman of the Industrial Payroll Savings Committee. This Committee consisted of top executives representing 23 major market areas and 27 major industries. Secretary Fowler and other cabinet members, as well as other Treasury officials, addressed national and local campaign kickoff meetings, which were attended by State volunteer chairmen, financial leaders, 135 Share-in-Freedom Center chairmen from the larger metropolitan areas, National labor executives, alternates of the Interdepartmental Savings Bonds Committee, and some 350 leading industrialists. As a result of these meetings, intensive campaigns were undertaken in the 23 major industrial centers by members of the Committee. Similar campaigns took place in 135 urban centers, each under the chairmanship of a local business leader.

Campaign preconditioning sponsored by the United Aircraft Corp. included two full-page advertisements in the "Wall Street Journal" emphasizing the role of the savings bond program in the maintenance of the country's sound financial structure, and the mailing of over 35,000 personalized letters, with enclosed brochures, from Mr. Gwinn to executives throughout the country. This resulted in a 20-percent response, which was promptly followed up by staff members and the industrial task force which consisted of approximately 750 junior executives loaned by industry and directed by the Savings Bonds Division field staff.

Following meetings in all Share-in-Freedom Centers, staff members and volunteers personally assisted companies in organizing campaigns. During the fiscal year, more than 12,500 campaigns were completed in companies of all sizes, resulting in over 11½ million new savers.

Successful campaigns in the Federal Government, among both civilian and military personnel, were conducted under the direction of Interdepartmental Chairman, Postmaster General Lawrence O'Brien, and Vice Chairman Richard Murphy. Special events helped to dramatize the Federal campaign, with the participation of Hollywood



celebrities at the Washington kickoff ceremonies, Government girls march, and Pentagon rally in early 1968.

During the 1968 Federal Government spring campaign, approximately 150,000 additional civilian employees and 81,500 additional members of the Armed Forces signed bond allotments. Total enrollments were over 3.7 million on June 30, 1968—the highest level since the inception of the program. Total purchases by Federal civilian and military personnel in fiscal 1968 amounted to over \$1 billion.

The 1968 spring campaign was promoted by special events in many other areas. Governors, mayors, and other leading local Government authorities issued savings bonds proclamations. Decorated Vietnam veterans representing all services again toured the country. They visited 80 cities in 26 States, appearing on television and at community meetings and plant rallies to dramatize the theme, "Buy Bonds Where You Work—They Do."

Organized labor gave its full cooperation to the payroll savings campaign in industry and Government. The sales program was successfully promoted by national unions through the National Labor Advisory Committee for savings bonds.

Sales of savings stamps, primarily through the Nation's schools, increased 1 percent during the fiscal year 1968. The women's organizations of the Nation act as volunteer leaders in the promotion of stamps.

Banks and other financial institutions contributed substantially to the success of the savings bonds-freedom shares program. During fiscal 1968, over 13,000 banks sent more than 36 million letters to their customers promoting savings bonds and freedom shares.

Voluntary assistance provided by the Advertising Council and its task force agencies was of major importance in all promotional activities undertaken by the U.S. Savings Bonds Division during fiscal 1968.

Support of all advertising media—newspapers, magazines, radio, television, and outdoor—continued at a high level. Magazines, for example, carried over 148,000 lines advertising savings bonds during fiscal 1968.

The Advertising Research Foundation, at the request of the Advertising Council and the Treasury, undertook the first public service project of its 31-year history to develop a consumer research program on the savings bonds market.

The entertainment industries continued their exceptional cooperation. The motion picture industry contributed a payroll savings film, "Star-Spangled Salesman," with an all-star cast. Several top stars lent their services in personal appearances and in theatrical trailers and television commercials.

#### **Management improvement**

An innovation in the volunteer sector of operations was the establishment, January 24, 1968, of a new State Chairman's Executive Committee which consisted of two executive committee members for each of the division's seven regions. The purpose of the Committee is to give more emphasis to the position of the volunteer chairmen throughout the various States; to provide more wingspread for their statewide activities and to create more specific liaison for their campaign planning and programing. The new executive committee will serve nation-



ally as an advisory group to the National Director for Savings Bonds, in creating and coordinating a nationwide program of State chairman projects.

### **U.S. Secret Service**

The major responsibilities of the U.S. Secret Service defined by section 3056, title 18, United States Code, are the protection of the President of the United States, the members of his immediate family, the President-elect, the Vice President or other officer next in the order of succession to the office of President, and the Vice-President-elect; protection of a former President and his wife during his lifetime and the person of a widow and minor children of a former President for a period of 4 years after he leaves or dies in office, unless such protection is declined; protection of persons who are determined from time to time by the Secretary of the Treasury, after consultation with an advisory committee, as being major presidential or vice presidential candidates, unless such protection is declined; the detection and arrest of persons committing any offenses against the laws of the United States relating to obligations and securities of the United States and of foreign governments; and the detection and arrest of persons violating certain laws relating to the Federal Deposit Insurance Corporation, Federal land banks, and Federal land bank associations.

#### **Management improvement**

Eight teletype units have been installed in headquarters and field offices to connect the Secret Service with the National Crime Information Center (NCIC) and with the Law Enforcement Teletype System (LETS). The teletype installation will provide rapid input to the Secret Service and the NCIC computer records system for interchange of printed material necessary in attaining speed and accuracy in law enforcement and protective response. The (LETS) system connects the Secret Service to 4,500 law enforcement organizations throughout the Nation in keeping with presidential directives on improved communications among law enforcement agencies.

An analytical system was developed for use in the investigative area to evaluate comparative field office data on check forgery cases received, closed, and pending. The information system provides total investigative hours spent as well as arrests for check forgery and is a valuable management tool in evaluating Service progress in the check forgery area.

Certain organizational changes were effected in fiscal 1968 to facilitate the specialization necessary to support the expanded operations of the Service. The Financial Management Division was established as a separate entity in the Office of Administration to centralize responsibility for budget operations, accounting, financial reporting, payroll operations, and voucher examination.

Preliminary work was initiated in April 1968, to transfer the Secret Service payroll operation to the Internal Revenue Service's automated system in Detroit. It is expected that this conversion will be accomplished early in fiscal 1969. It is estimated that this will result in recurring annual savings of \$24,000.

**Personnel**

During fiscal 1968 the Secret Service appointed approximately 242 new special agents, technicians, specialists, and support personnel.

Personnel security investigations, were added to the responsibilities of the Personnel Division during the fiscal year.

**Training**

A pilot training project to accelerate the training of new special agents was initiated during the fiscal year. It was designed to permit new personnel to perform the full range of their duties at the earliest possible date.

Seven employees attended seminars on planning-programing-budgeting conducted by the Civil Service Commission. Other employees participated in management seminars conducted by the Brookings Institution and the Civil Service Commission.

**Inspection and audit program**

During fiscal 1968 the inspection and audit program was improved by the development of revised check lists and evaluation forms, and the publication of a new "Inspection Procedures Manual." In addition, a new format was adopted for reporting inspections of units other than field offices.

**Protective responsibilities**

The protection of the First Family, Vice President, former Presidents, their wives, and the widow and minor children of the late President Kennedy continued to be the primary responsibility of the Service.

On June 6, 1968, Congress expanded the protective responsibilities of the Service by enacting a joint resolution (Public Law 90-331) which provided for the protection of major presidential and vice presidential candidates.

**Investigative responsibilities**

Counterfeiting violations continued to pose an enforcement problem of increasing magnitude during fiscal 1968. The Secret Service arrested 1,370 persons, an increase of 27.8 percent over the previous year, for currency counterfeiting violations. More than \$10 million in counterfeit currency, 76 percent of the total received, was seized before being placed in circulation.

Losses to the public, the amount of counterfeit currency passed on the public, reached \$2.8 million. Of this total, \$1.4 million was traced to 36 plant operations (places of manufacture) which produced 136 counterfeit issues. The Secret Service suppressed the operations of these plants prior to June 30, 1968. Another \$365,000 in losses was the residue from plants seized in previous years. Of the \$1 million in losses remaining, about \$800,000 was attributed to seven major counterfeiting operations which were under investigation at the fiscal yearend.

The Service's enforcement program has resulted in the suppression of counterfeit plant operations responsible for 63 percent of the losses suffered during the fiscal year.

The following summaries are illustrative of the type and scope of counterfeiting activities during fiscal 1968.

In the fall of 1967, an undercover agent was introduced to a woman who was acting on behalf of several well-known Chicago hoodlums. They wanted to locate a buyer for a larger quantity of counterfeit \$10,000 Treasury bearer securities. The agent succeeded in arranging for the purchase of \$1 million in the counterfeits. In January 1968, the woman and four men were arrested while making the delivery to the agent. The group's ringleader was arrested nearby in his car.

During January 1966, an individual was convicted in Los Angeles for possessing \$300,000 in counterfeit \$100 notes. Later, the defendant contacted the Secret Service and offered to identify the source of the notes. He claimed the \$300,000 was only the initial delivery of over \$10 million he had ordered from a Miami attorney. He also offered to assist in obtaining the remainder of the notes which were still available for delivery.

Negotiations with the attorney culminated in late December 1967, when the attorney forwarded three boxes by air to the defendant in New York City. The boxes, which were received and opened at the JFK International Airport, contained \$4.1 million in counterfeit \$100 notes, the largest single counterfeit seizure in the history of the Secret Service.

The Miami attorney was arrested in New York City several days later. Prosecution was pending at the fiscal yearend.

Of the \$2.8 million passed on the public during fiscal 1968, over \$400,000 came from a single counterfeiting operation in the Birmingham, Ala., area that reached into almost every State of the Nation.

By the spring of 1968, a special squad assigned to investigate this operation, had arrested the two printers and several of the organization's major distributors. The fact that over 225 persons were arrested for passing notes produced by this counterfeiting plant illustrates the complex enforcement problem which confronts the Secret Service when a single operation has such well-organized distribution facilities.

Total counterfeits attributed to this group exceeded \$880,000 of which \$384,000 was seized before being placed in circulation. One of the printers plead guilty to the charges placed against him and was given a suspended sentence.

An unusual counterfeiting operation was discovered when a new counterfeit \$5 note was passed in Tampa, Fla., in January 1967. Five other related counterfeits appeared during the next month in Florida and Georgia. During the following weeks these notes were passed in other States along the east coast and into the Midwest, but in such small quantities that only one or two individuals appeared to be involved.

The first break in this case came in May when a Florida resident was arrested while attempting to pass one of the notes near Detroit. He claimed the notes were printed by a fellow Floridian, a prominent coin dealer, who had accompanied him to the shopping center but who had fled to avoid arrest. Based on this information, the plant in Florida was seized and a fugitive warrant issued for the coin dealer. Efforts to locate the fugitive were unsuccessful.

Weeks later, another group of new counterfeit \$5, \$10, and \$20 notes



appeared in California, Colorado, and Texas. The pattern of passing the notes again indicated that this was the work of only one or two persons. One of the notes was passed at a small coin shop in Amarillo, Tex. When questioned later, the owner of the shop recalled that the passer was an individual whom he had previously met at several coin shows—the missing Florida coin dealer.

Efforts to locate the fugitive were intensified and the suspect was taken into custody near New Orleans during September. He had fled to Los Angeles after narrowly escaping arrest in Detroit. There he rented a small print shop and produced a second group of notes.

The passer arrested at Detroit received a 6-year sentence. The coin dealer received a sentence of 5 years. In all, he was responsible for the manufacture of 14 different counterfeits totaling nearly \$200,000.

Another issue of counterfeit \$20 notes first appeared in August 1967, when 15 were passed at a dog track near Portland, Ore. Three days later Secret Service agents from the Seattle office were called to a downtown store where employees were holding a woman who had attempted to make a purchase with one of the notes.

While one agent questioned the suspect, another canvassed nearby stores where he picked up several other counterfeit notes which had been passed by a woman answering the suspect's description. When confronted with this information, the woman amazed the agents by admitting that she was not only responsible for passing the notes but that she had also printed them! The arresting agents were dubious until they learned that a printing press, camera, and other paraphernalia had been found in her apartment in Portland. The defendant was placed on probation bringing to a close the 3-day career of the first female counterfeiter in recent Secret Service history.

Two major counterfeiting operations centered in the Metropolitan New York City area posed potential problems to the Secret Service during the fiscal year. Both involved printers who operated legitimate printing firms and had wide contacts among the criminal element, which they used as outlets for their products.

In April 1968, an informant contacted the Secret Service in New York City and surrendered specimens of a new counterfeit \$10 note. The note was associated with a group of counterfeits which had plagued New York agents for several months. Several days later the printer was arrested at his Brooklyn shop and \$100,000 in counterfeits was seized.

The other case was solved when agents identified a major New Jersey distributor. This man had sold counterfeit notes to several persons who were later arrested for passing them. Surveillance of the distributor led to a midtown New York printing firm where the notes were being produced. Early in March the printer and two associates were arrested at the shop and \$23,000 in the notes seized.

These two New York City counterfeiting operations produced 19 different counterfeit issues totaling \$450,000, of which \$285,000 was seized before being placed in circulation.

The following table summarizes receipts of counterfeit money during the fiscal years 1967 and 1968.



*Counterfeit money received, fiscal years 1967 and 1968*

Receipts of counterfeit notes and coins	1967	1968
Counterfeit money received in the United States:		
Loss to the public.....	\$1,658,100.75	\$2,887,011.15
Seized before circulation.....	8,587,845.49	10,294,386.32
Total.....	10,245,946.24	13,181,397.47

During fiscal 1968 the forgery of Government obligations continued to represent a substantial part of the investigative responsibilities of the Secret Service.

The number of U.S. Treasury checks requiring investigation increased 16.9 percent in fiscal 1968 over fiscal 1967, while the number of Government bonds received for investigation increased 61.9 percent. The Secret Service completed investigations of 52,667 Government checks, involving approximately \$5.5 million. A total of 2,422 persons were arrested and prosecuted for Government check violations during fiscal 1968. In addition, the Secret Service investigated 11,505 cases involving the forgery and fraudulent negotiation of U.S. Government bonds having a maturity value of \$1,242,000 and arrested 146 persons.

Representative of the cases involving forgery of Government checks during fiscal 1968 was that of a 40-year-old narcotic addict. This individual had stolen, forged, and cashed approximately 100 Treasury checks amounting to about \$10,700. His criminal actions were prompted by his desperate need for money to satisfy his narcotic habit. The defendant who had operated for about 14 months, had altered the amount on a number of checks to a higher sum before cashing them.

The defendant, who has a prior record having been arrested for similar offenses in 1955, was sentenced in Federal court to serve 5 years for his offenses which culminated in 1968.

One 69-year-old forger of U.S. Government bonds was sentenced in Federal court in February 1968 to 2½ years imprisonment. Up to January 26, 1968, he had forged and redeemed 1,246 Government bonds amounting to approximately \$280,000.

Between May 1967 and January 1968, he had been arrested on five different occasions for bond forgery and in each instance had been released on bail. This forger is also a prime suspect in the investigation of a large number of bonds which were stolen, forged, and cashed between January 26, 1968, when he entered his plea of guilty and February 12, 1968, when his imprisonment began. He is also one of 32 defendants in a conspiracy case pending at San Antonio, Tex.

While on bail, this defendant surrendered approximately \$230,000 in stolen U.S. Government bonds, State of Israel bonds, and U.S. Postal money orders.

The Secret Service continues to conduct other investigations coming within its statutory responsibility concerning violations of the Gold Reserve Act, Government losses in shipment, and silver regulations.

A joint investigation by Secret Service offices in El Paso, Tex., and Phoenix, Ariz., from January 1968 to April 1968 involved violations of the silver regulations. Two men had been receiving large shipments of U.S. silver coins from various parts of the nation. The coins were

melted into ingots at Tucson, Ariz., and sold for the silver value which yielded a large profit above the coinage value. The investigation resulted in the arrest of the two men and the seizure of \$68,632 in coins and two 100-pound ingots of silver.

The Secret Service continued to participate with other Treasury Department enforcement agencies in the Department of Justice Organized Crime Task Force projects. Four senior agents are assigned to the task forces. This combined Federal effort against organized crime has shown encouraging results.

The following tables show the number of criminal and noncriminal investigations completed and arrests made by the Secret Service in fiscal years 1967 and 1968.

*Criminal and noncriminal cases investigated, fiscal years 1967 and 1968*

Cases investigated	1967	1968
Counterfeiting.....	24,911	23,025
Forged Government checks.....	43,055	52,667
Forged Government bonds.....	6,413	11,505
Protective intelligence.....	15,829	14,614
Other criminal and noncriminal.....	3,276	3,422
Total.....	93,484	105,233

*Number of arrests, fiscal years 1967 and 1968*

Offenses	1967	1968
Counterfeiting.....	1,072	1,370
Forged Government checks.....	2,431	2,422
Forged Government bonds.....	113	146
Protective intelligence.....	428	338
Miscellaneous.....	73	61
Total.....	4,117	4,337

Offenses investigated by the Secret Service resulted in the conviction of 3,368 persons—97.1 percent of the cases brought to trial during fiscal year 1968.

### Cooperation

The Secret Service continues to receive outstanding cooperation and assistance from local, State, and other Federal law enforcement agencies in support of its protective and investigative responsibilities.



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EXHIBITS

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# Public Debt Operations, Regulations, and Legislation

## Treasury Notes Offered and Allotted

During fiscal year 1968 there were no offerings of marketable Treasury certificates of indebtedness or Treasury bonds.

### Exhibit 1.—Treasury notes

Two Treasury circulars, one containing an exchange offering and the other containing a cash offering, are reproduced in this exhibit. Circulars pertaining to the other note offerings during the fiscal year 1968 are similar in form and therefore are not reproduced in this report. However, essential details for each offering are summarized in the first table following the circulars and the final allotments of the new notes are shown in the second table.

#### DEPARTMENT CIRCULAR NO. 1-68. PUBLIC DEBT

TREASURY DEPARTMENT,  
*Washington, February 1, 1968.*

##### I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers notes of the United States, designated 5¼ percent Treasury Notes of Series A—1975 at par:

- (1) in exchange for 5⅞ percent Treasury Notes of Series A—1968, dated November 15, 1966, due February 15, 1968;
- (2) with a cash payment of \$6.00 per \$1,000 to the United States in exchange for 4¼ percent Treasury Notes of Series C—1968, dated May 15, 1967, due August 15, 1968;
- (3) with a cash payment of \$8.50 per \$1,000 to the United States in exchange for 3¾ percent Treasury Bonds of 1968, dated April 18, 1962, due August 15, 1968, in amounts of \$1,000 or multiples thereof;
- (4) with a cash payment of \$1.50 per \$1,000 to the United States in exchange for 5¼ percent Treasury Notes of Series D—1968, dated August 15, 1967, due November 15, 1968; or
- (5) with a cash payment of \$11.50 per \$1,000 to the United States in exchange for 3⅞ percent Treasury Bonds of 1968, dated September 15, 1963, due November 15, 1968, in amounts of \$1,000 or multiples thereof.

Interest will be adjusted as of February 15, 1968, in the case of the securities due November 15, 1968. Payments on account of accrued interest and cash adjustments will be made as set forth in Section IV hereof. The amount of this offering will be limited to the amount of eligible securities tendered in exchange. The books will be open only on February 5 through February 7, 1968, for the receipt of subscriptions.

##### II. DESCRIPTION OF NOTES

1. The notes will be dated February 15, 1968, and will bear interest from that date at the rate of 5¼ percent per annum, payable semiannually on August 15, 1968, and thereafter on February 15 and August 15 in each year until the principal amount becomes payable. They will mature February 15, 1975, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$1,000,000, \$100,000,000 and \$500,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, and to allot less than the amount of notes applied for when he deems it to be in the public interest; and any action he may take in these respects shall be final. Subject to the exercise of that authority, all subscriptions will be allotted in full.

### IV. PAYMENT

1. Payment for the face amount of notes allotted hereunder must be made on or before February 15, 1968, or on later allotment, and may be made only in a like face amount of the securities enumerated in Paragraph 1 of Section I hereof, which should accompany the subscription. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. Cash payments due from subscribers (paragraphs 3, 4 and 6 below) should accompany the subscription. Cash payments due to subscribers (paragraph 5 below) will be made by check or by credit in any account maintained by a banking institution with the Federal Reserve Bank of its District following acceptance of the securities surrendered. In the case of registered securities, the payment will be made in accordance with the assignments thereon.

2. 5½ percent notes of Series A-1968.—Coupons dated February 15, 1968, should be detached and cashed when due.<sup>1</sup>

3. 4¼ percent notes of Series C-1968.—Coupons dated August 15, 1968, must be attached (February 15, 1968, coupons should be detached<sup>1</sup>) to the notes in bearer form when surrendered. A cash payment of \$6.00 per \$1,000 must be made by subscribers.

4. 3¾ percent bonds of 1968.—Coupons dated August 15, 1968, must be attached (February 15, 1968, coupons should be detached<sup>1</sup>) to the bonds in bearer form when surrendered. A cash payment of \$8.50 per \$1,000 must be made by subscribers.

5. 5¼ percent notes of Series D-1968.—Coupons dated May 15 and November 15, 1968, must be attached to the notes in bearer form when surrendered. Accrued interest from November 15, 1967, to February 15, 1968 (\$13.26923 per \$1,000), will be credited, the payment (\$1.50 per \$1,000) due the United States will be charged and the difference (\$11.76923 per \$1,000) will be paid to subscribers.

6. 3¾ percent bonds of November 15, 1968.—Coupons dated May 15 and November 15, 1968, must be attached to the bonds in bearer form when surrendered. Accrued interest from November 15, 1967, to February 15, 1968 (\$9.79396 per \$1,000), will be credited, the payment (\$11.50 per \$1,000) due the United States will be charged and the difference (\$1.70604 per \$1,000) must be paid by subscribers.

<sup>1</sup> Interest due on Feb. 15, 1968, on registered securities will be paid by issue of interest checks in regular course to holders of record on Jan. 15, 1968, the date the transfer books closed.

## V. ASSIGNMENT OF REGISTERED SECURITIES

1. Treasury securities in registered form tendered in payment for notes offered hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be surrendered with the subscription to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The securities must be delivered at the expense and risk of the holder. If the new notes are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for exchange for 5¾ percent Treasury Notes of Series A-1975"; if the new notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for 5¾ percent Treasury Notes of Series A-1975 in the name of \_\_\_\_\_"; if new notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for 5¾ percent Treasury Notes of Series A-1975 in coupon form to be delivered to \_\_\_\_\_".

## VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notes as may be necessary, to receive payment for and make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

## DEPARTMENT CIRCULAR NO. 4-68. PUBLIC DEBT

TREASURY DEPARTMENT,  
*Washington, May 2, 1968.*

## I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers \$3,000,000,000, or thereabouts, of notes of the United States, designated 6 percent Treasury Notes of Series C-1969, at par and accrued interest. The following securities, maturing May 15, 1968, will be accepted at par in payment, in whole or in part, to the extent subscriptions are allotted by the Treasury:

4¾ percent Treasury Notes of Series B-1968; or

3¾ percent Treasury Bonds of 1968.

The books will be open only on May 8, 1968, for the receipt of subscriptions.

## II. DESCRIPTION OF NOTES

1. The notes will be dated May 15, 1968, and will bear interest from that date at the rate of 6 percent per annum, payable on a semiannual basis on August 15, 1968, and February 15 and August 15, 1969. They will mature August 15, 1969, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$1,000,000, \$100,000,000 and \$500,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered



notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit subscriptions for account of customers provided the names of the customers are set forth in such subscriptions. Others than commercial banks will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank. Subscriptions will be received without deposit from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks and Government Investment Accounts. Subscriptions from all others must be accompanied by payment (in cash or in securities of the issues enumerated in Paragraph 1 of Section I hereof, which will be accepted at par) of 10 percent of the amount of notes applied for, not subject to withdrawal until after allotment. Registered securities submitted as deposits should be assigned as provided in Section V hereof. Following allotment, any portion of the 10 percent payment in excess of 10 percent of the amount of notes allotted may be released upon the request of the subscribers.

2. All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any notes of this issue at a specific rate or price, until after midnight May 8, 1968.

3. Commercial banks in submitting subscriptions will be required to certify that they have no beneficial interest in any of the subscriptions they enter for the account of their customers, and that their customers have no beneficial interest in the banks' subscriptions for their own account.

4. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers when he deems it to be in the public interest; and any action he may take in these respects shall be final. The basis of the allotment will be publicly announced, and allotment notices will be sent out promptly upon allotment.

### IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before May 15, 1968, or on later allotment. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. In every case where full payment is not completed, the payment with application up to 10 percent of the amount of notes allotted shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Payment may be made for any notes allotted hereunder in cash or in securities of the issues enumerated in Paragraph 1 of Section I hereof, which will be accepted at par. Any qualified depository will be permitted to make payment by credit in its Treasury Tax and Loan Account for notes allotted to it for itself and its customers up to any amount for which it shall be qualified

in excess of existing deposits, when so notified by the Federal Reserve Bank of its District. When payment is made with securities in bearer form, coupons dated May 15, 1968, should be detached and cashed when due. When payment is made with registered securities, the final interest due on May 15, 1968, will be paid by issue of interest checks in regular course to holders of record on April 15, 1968, the date the transfer books closed.

#### V. ASSIGNMENT OF REGISTERED SECURITIES

1. Treasury securities in registered form tendered as deposits and in payment for notes allotted hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Treasury Department, in one of the forms hereafter set forth. Securities tendered in payment should be surrendered to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The maturing securities must be delivered at the expense and risk of the holder. If the new notes are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for 6 percent Treasury Notes of Series C-1969"; if the new notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for 6 percent Treasury Notes of Series C-1969 in the name of\_\_\_\_\_"; if new notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for 6 percent Treasury Notes of Series C-1969 in coupon form to be delivered to\_\_\_\_\_".

#### VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

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## Summary of information pertaining to Treasury notes issued during the fiscal year 1968

Date of preliminary announcement	Department circular No.	Date	Concurrent offering circular No.	Treasury notes issued for exchange or for cash	Date of issue	Date of maturity	Date subscription books closed	Allotment payment date on or before (or on later allotment)
1967								
July 26	7-67	July 27	1967	5½ percent Series D-1968 issued at 99.94 for cash <sup>1</sup>	Aug. 15 1967	Nov. 15 1967	July 31 1967	Aug. 15
Aug. 17	8-67	Aug. 18		5½ percent Series C-1971 issued at 99.92 for cash	Aug. 30 1971	Feb. 15 1971	Aug. 22 1967	Aug. 30
Oct. 25	9-67	Oct. 26	10-67	5½ percent Series A-1969 issued at par for cash <sup>1</sup>	Nov. 15 1969	Feb. 15 1969	Oct. 30 1967	Nov. 15
Oct. 25	10-67	Oct. 26	9-67	5½ percent Series A-1974 issued at par for cash <sup>1</sup>	Nov. 15 1974	Nov. 15 1974	Oct. 30 1967	Nov. 15
1968								
Jan. 31	1-68	Feb. 1		5¾ percent Series A-1975 issued at par in exchange for: 5½ percent Series A-1968 notes maturing Feb. 15, 1968 4¾ percent Series C-1968 notes maturing Aug. 15, 1968 (\$0.60) <sup>3</sup> 3¾ percent bonds maturing Aug. 15, 1968 (\$0.85) <sup>3</sup> 5¾ percent Series D-1968 notes maturing Nov. 15, 1968 (\$0.15) <sup>3</sup> 3¾ percent bonds maturing Nov. 15, 1968 (\$1.15) <sup>3</sup>	Nov. 15 1968	Nov. 15 1968	Oct. 30 1967	Nov. 15
Feb. 8	2-68	Feb. 9		5½ percent Series B-1969 issued at par for cash	Feb. 21 1969	May 15 1969	Feb. 13 1967	Feb. 21
May 1	4-68	May 2	5-68	6 percent Series C-1969 issued at par for cash <sup>1</sup>	May 15 1969	Aug. 15 1969	May 8 1967	May 15
May 1	5-68	May 2	4-68	6 percent Series B-1975 issued at par in exchange for: 4¾ percent Series B-1968 notes maturing May 15, 1968 3¾ percent bonds maturing May 15, 1968	May 15 1975	May 15 1975	May 8 1967	May 15

<sup>1</sup> Holders of Treasury certificates of indebtedness, notes, or bonds maturing on the issue date of the new notes were not offered preemptive rights to exchange their holdings for the new notes. Payment for cash subscriptions allotted could be made in whole or in part by exchange of the maturing securities, which were accepted at par.

<sup>2</sup> See Department Circular No. 1-68 in this exhibit for provisions for subscription and payment.

<sup>3</sup> Amount per \$100 payable by subscribers exchanging this security.

*Allocments of Treasury notes issued during the fiscal year 1968, by Federal Reserve districts*

[ In thousands ]

Federal Reserve district	5½ percent Series D-1968 notes 1	5½ percent Series C-1971 notes 2	5½ percent Series A-1969 notes 1	5½ percent Series A-1974 notes 1
Boston.....	\$137,471	\$160,943	\$150,544	\$77,509
New York.....	7,428,564	682,474	8,831,472	685,690
Philadelphia.....	114,009	93,545	124,526	35,254
Cleveland.....	254,122	193,377	200,903	65,761
Richmond.....	170,661	117,113	103,425	45,369
Atlanta.....	201,668	156,159	144,337	79,479
Chicago.....	557,304	383,889	388,628	210,948
St. Louis.....	189,946	132,824	155,692	77,110
Minneapolis.....	106,171	111,532	87,446	43,981
Kansas City.....	162,549	163,119	120,539	95,311
Dallas.....	171,203	97,154	116,460	46,987
San Francisco.....	403,412	215,770	298,521	184,980
Treasury.....	16,118	657	15,068	3,352
Total note allotments.....	9,913,198	2,508,556	10,737,561	1,651,731
Securities eligible for exchange: Exchanged in concurrent offerings.....				
Total exchanged.....				
Not submitted for exchange.....				
Total securities eligible for exchange.....				
Footnotes at end of table.				



*Allotments of Treasury notes issued during the fiscal year 1968, by Federal Reserve districts—Continued*

[In thousands]

Federal Reserve district	5 3/4 percent Series A-1975 notes issued in exchange for 3—					Total issued
	5 5/8 percent Series A-1968 Treasury notes maturing Feb. 15, 1968	4 1/4 percent Series C-1968 Treasury notes maturing Aug. 15, 1968	3 3/4 percent Treasury bonds of 1968 maturing Aug. 15, 1968	5 1/4 percent Series D-1968 Treasury notes maturing Nov. 15, 1968	3 7/8 percent Treasury bonds of 1968 maturing Nov. 15, 1968	
Boston.....	\$41,841	\$15,007	\$24,613	\$39,256	\$22,566	\$143,313
New York.....	1,679,786	211,146	447,398	392,674	139,011	2,870,015
Philadelphia.....	36,233	17,560	29,189	30,701	8,204	121,887
Cleveland.....	48,885	47,064	49,782	52,382	25,947	224,060
Richmond.....	20,237	10,987	18,424	12,950	9,476	72,074
Atlanta.....	36,328	15,927	28,500	31,606	15,486	127,847
Chicago.....	109,956	94,516	170,874	137,709	99,922	612,977
St. Louis.....	56,600	34,967	38,784	39,629	19,158	190,138
Minneapolis.....	24,997	10,342	44,891	29,960	16,639	126,829
Kansas City.....	32,839	11,428	34,763	35,133	21,221	135,484
Dallas.....	43,640	10,428	23,720	41,681	15,514	134,983
San Francisco.....	30,533	25,749	63,402	79,460	34,085	263,229
Treasury.....	9,319	2,104	102,099	5,966	6,119	125,607
Total note allotments.....	2,171,294	507,225	1,107,439	929,137	433,348	5,148,443
Securities eligible for exchange: Exchanged in concurrent offerings.....						
Total exchanged.....	2,171,294	507,225	1,107,439	929,137	433,348	5,148,443
Not submitted for exchange.....	463,353	5,936,487	2,639,920	8,954,061	1,138,086	19,182,089
Total securities eligible for exchange.....	2,634,647	6,443,712	3,747,359	9,913,198	1,591,434	24,330,532

Footnotes at end of table.

*Allotments of Treasury notes issued during the fiscal year 1968, by Federal Reserve districts—Continued*  
[In thousands]

Federal Reserve district	5½ percent Series B-1969 notes <sup>1</sup>	6 percent Series C-1969 notes <sup>2</sup>	6 percent Series B-1975 notes issued in exchange for <sup>3</sup> —		Total issued
			4¾ percent Series B-1968 Treasury notes maturing May 15, 1968	37 percent Treasury bonds of 1968 maturing May 15, 1968	
Boston.....	\$211,826	\$194,030	\$41,046	\$42,551	\$84,197
New York.....	1,218,954	943,574	4,357,210	991,018	5,348,228
Philadelphia.....	166,514	166,514	33,750	59,058	92,808
Cleveland.....	308,760	243,503	44,676	68,929	113,605
Richmond.....	159,016	197,366	18,338	33,226	51,564
Atlanta.....	252,658	197,366	66,666	44,633	111,299
Chicago.....	658,431	516,904	236,052	172,731	408,783
St. Louis.....	202,241	166,916	56,493	60,181	116,674
Minneapolis.....	125,541	100,082	20,299	31,800	52,099
Kansas City.....	173,943	163,833	31,164	61,774	92,938
Dallas.....	142,931	118,830	19,350	36,471	55,821
San Francisco.....	613,564	389,404	149,725	71,643	221,368
Treasury.....	801	5,515	6,439	4,164	10,603
Total note allotments.....	4,277,257	3,366,087	5,081,808	1,678,179	6,759,987
Securities eligible for exchange: Exchanged in concurrent offerings.....	-----	-----	-----	-----	-----
Total exchanged.....	-----	-----	5,081,808	1,678,179	6,759,987
Not submitted for exchange.....	-----	-----	505,034	781,752	1,286,786
Total securities eligible for exchange.....	-----	-----	5,586,842	2,459,931	8,046,773

<sup>1</sup> Subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign states, Government investment accounts, and the Federal Reserve banks were allotted in full up to the amount that the subscriber certified that it owned a like amount of maturing securities that could be used in payment for the notes. All subscriptions for \$100,000 or less were allotted in full. Other subscriptions were allotted as follows: 35 percent for the notes of Series D-1968, 36 percent for the notes of Series A-1969, and 7½ percent for the notes of Series A-1974, but not less than \$100,000 to any 1 subscriber.

<sup>2</sup> Subscriptions for \$100,000 or less were allotted in full. Other subscriptions were allotted 38 percent but with a minimum allotment of \$100,000 to any 1 subscriber.

<sup>3</sup> All subscriptions for \$200,000 or less were allotted in full.

<sup>4</sup> Subscriptions for \$200,000 or less were allotted in full. Other subscriptions were allotted 39 percent but with a minimum allotment of \$200,000 to any 1 subscriber.

<sup>5</sup> Subscriptions for \$100,000 or less were allotted in full. Other subscriptions were allotted 28 percent but with a minimum allotment of \$100,000 to any 1 subscriber.

## Treasury Bills Offered and Tenders Accepted

## Exhibit 2.—Treasury bills

During the fiscal year there were 52 weekly issues of 13-week and 26-week bills (the 13-week bills represent additional issues of bills with an original maturity of 26 weeks), 11 monthly issues of one-year and 9-month bills (the 9-month bills represent additional issues of bills with an original maturity of one year), and 5 issues of tax anticipation series. Two press releases inviting tenders are reproduced in this exhibit. The release of June 5, 1968, is representative of releases for regular weekly and regular monthly issues while the release of January 3, 1968, is representative of tax anticipation series issues. Also reproduced is the press release of June 10, 1968, which is representative of releases announcing the results of the offerings. Following the press releases is a table of data for each issue issued during the fiscal year.

## PRESS RELEASE OF JUNE 5, 1968

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of \$2,700,000,000 or thereabouts, for cash and in exchange for Treasury bills maturing June 13, 1968, in the amount of \$2,600,476,000, as follows:

91-day bills (to maturity date) to be issued June 13, 1968, in the amount of \$1,600,000,000, or thereabouts, representing an additional amount of bills dated March 14, 1968, and to mature September 12, 1968, originally issued in the amount of \$1,000,290,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$1,100,000,000, or thereabouts, to be dated June 13, 1968, and to mature December 12, 1968.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$50,000, \$100,000, \$500,000 and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, 1:30 p.m., eastern daylight saving time, Monday, June 10, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 13, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 13, 1968. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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#### PRESS RELEASE OF JANUARY 3, 1968

The Treasury Department, by this public notice, invites tenders for \$2,500,000,000, or thereabouts, of 161-day Treasury bills (to maturity date), to be issued January 15, 1968, on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be designated Tax Anticipation Series and represent an additional amount of bills dated October 9, 1967, to mature June 24, 1968, originally issued in the amount of \$3,005,517,000. The additional and original bills will be freely interchangeable. They will be accepted at face value in payment of income taxes due on June 15, 1968, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of June 15, 1968, income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than 15 days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on June 15, 1968. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before June 15, 1968, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$50,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, 1:30 p.m., eastern standard time, Tuesday, January 9, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills



of this issue at a specific rate or price, until after 1:30 p.m., eastern standard time, Tuesday, January 9, 1968.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on January 15, 1968, provided, however, any qualified depository will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

#### PRESS RELEASE OF JUNE 10, 1968

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated March 14, 1968, and the other series to be dated June 13, 1968, which were offered on June 5, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for \$1,600,000,000, or thereabouts, of 91-day bills and for \$1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

Range of accepted competitive bids	91-day Treasury bills maturing Sept. 12, 1968		182-day Treasury bills maturing Dec. 12, 1968	
	Price	Approximate equivalent annual rate	Price	Approximate equivalent annual rate
		<i>Percent</i>		<i>Percent</i>
High.....	1 98.569	5.661	97.088	5.760
Low.....	2 98.552	5.728	3 97.067	5.802
Average.....	98.556	4 5.713	97.073	4 5.790

<sup>1</sup> Excepting 5 tenders totaling \$500,000.

<sup>2</sup> 69 percent of the amount of 91-day bills bid for at the low price was accepted.

<sup>3</sup> 47 percent of the amount of 182-day bills bid for at the low price was accepted.

<sup>4</sup> These rates are on a bank discount basis. The equivalent coupon issue yields are 5.88 percent for the 91-day bills, and 6.05 percent for the 182-day bills.

*Total tenders applied for and accepted by Federal Reserve districts*

District	Applied for	Accepted	Applied for	Accepted
Boston.....	\$20,826,000	\$10,826,000	\$3,143,000	\$2,143,000
New York.....	1,774,081,000	1,095,211,000	1,326,213,000	819,563,000
Philadelphia.....	28,070,000	21,070,000	19,637,000	11,637,000
Cleveland.....	48,321,000	40,321,000	31,865,000	18,815,000
Richmond.....	15,689,000	14,689,000	6,038,000	4,038,000
Atlanta.....	43,336,000	36,336,000	29,821,000	18,994,000
Chicago.....	372,211,000	191,231,000	328,059,000	117,559,000
St. Louis.....	43,127,000	33,424,000	23,699,000	13,999,000
Minneapolis.....	21,642,000	19,565,000	16,064,000	14,064,000
Kansas City.....	43,832,000	37,832,000	20,183,000	13,183,000
Dallas.....	23,598,000	15,598,000	17,828,000	9,828,000
San Francisco.....	193,390,000	84,269,000	218,513,000	56,313,000
Total.....	2,628,123,000	<sup>1</sup> 1,600,372,000	2,041,063,000	<sup>2</sup> 1,100,136,000

<sup>1</sup> Includes \$277,907,000 noncompetitive tenders accepted at the average price of 98.556.

<sup>2</sup> Includes \$130,718,000 noncompetitive tenders accepted at the average price of 97.073.

## Summary of information pertaining to Treasury bills issued during the fiscal year 1968

(Dollar amounts in thousands)

Date of issue	Date of maturity	Days to maturity <sup>1</sup>	Maturity value			Prices and rates						Amount maturing on issue date of new offering		
			Tenders accepted		In exchange	Total bids accepted		Competitive bids accepted		Equivalent rate (percent)				
			On competitive basis	On non-competitive basis		Average price per hundred	Equivalent rate (percent)	High	Low					
REGULAR WEEKLY														
July	6 Oct. 5, 1967	91	\$1,989,207	\$1,301,502	\$228,400	\$1,012,688	\$283,834	98,918	4,279	2 98,958	4,122	98,980	4,391	\$1,301,040
	6 Jan. 4, 1968	182	1,699,442	1,000,092	104,944	767,314	232,778	97,616	4,716	97,700	4,549	97,565	4,816	1,001,157
	13 Oct. 13, 1967	182	2,206,559	1,000,319	290,593	1,236,200	164,119	98,905	4,286	98,918	4,234	98,899	4,398	1,301,366
	13 Jan. 11, 1968	182	1,646,244	1,000,444	853,783	861,417	139,027	97,630	4,689	97,652	4,644	97,605	4,737	1,000,205
	20 Oct. 19, 1967	91	2,404,610	1,000,893	1,131,316	1,072,490	328,403	98,927	4,244	98,933	4,221	98,924	4,257	1,300,505
	20 Jan. 18, 1968	182	1,867,034	1,000,696	870,925	1,237,771	228,607	97,601	4,745	97,614	4,720	97,594	4,759	1,000,906
	27 Oct. 26, 1967	91	2,366,059	1,400,678	1,500,316	230,362	1,124,212	98,932	4,424	98,916	4,258	98,874	4,435	1,300,868
	27 Jan. 25, 1968	182	2,029,634	1,000,293	880,627	119,066	276,460	98,882	5,044	97,470	5,004	97,428	5,087	999,939
	3 Nov. 2, 1967	91	2,367,793	1,404,964	226,736	999,161	405,803	98,943	4,181	98,956	4,130	98,941	4,189	1,300,949
	3 Feb. 1, 1968	182	2,019,129	1,000,357	869,009	131,348	201,779	97,655	4,659	97,674	4,601	97,647	4,634	1,002,103
	10 Nov. 9, 1967	91	2,422,299	1,400,251	1,166,275	233,976	108,700	98,945	4,173	98,956	4,130	98,934	4,217	1,301,014
	10 Feb. 8, 1968	182	1,980,610	1,000,492	874,415	136,077	233,976	97,595	4,757	97,610	4,727	97,578	4,791	1,000,116
	17 Nov. 16, 1967	91	2,347,546	1,399,765	1,166,568	233,197	1,159,777	98,940	4,194	98,948	4,162	98,934	4,217	1,300,565
Aug.	24 Nov. 24, 1967	182	2,232,607	1,401,656	868,866	131,703	163,850	97,578	4,334	98,905	4,271	97,568	4,811	1,001,414
	17 Feb. 15, 1968	182	2,023,049	1,001,494	1,192,017	821,282	180,212	97,498	4,922	97,524	4,871	97,459	4,940	1,300,390
	24 Nov. 24, 1967	183	2,367,239	1,400,443	1,177,049	821,282	309,318	98,856	4,402	98,871	4,366	98,861	4,506	1,300,390
	31 Nov. 30, 1967	91	2,195,568	1,001,441	870,818	130,623	189,125	97,475	4,994	97,484	4,977	97,472	5,000	1,000,485
	31 Feb. 29, 1968	182	2,195,568	1,001,441	870,818	130,623	189,125	97,475	4,994	97,484	4,977	97,472	5,000	1,000,485
	7 Dec. 7, 1967	91	2,678,904	1,001,911	1,199,280	201,631	189,125	98,907	4,324	98,912	4,304	98,904	4,336	1,300,021
	7 Mar. 7, 1968	182	1,633,476	1,000,208	862,523	108,685	131,862	97,475	4,765	97,604	4,739	97,572	4,837	1,000,082
	14 Dec. 14, 1967	91	2,162,113	1,000,527	1,146,824	253,677	280,004	98,898	4,352	98,906	4,325	97,900	4,905	1,001,557
	14 Mar. 14, 1968	182	1,793,439	1,000,827	856,033	144,494	795,949	97,497	4,989	97,510	4,952	97,310	4,956	1,299,958
	21 Dec. 21, 1967	91	2,004,219	1,399,965	1,140,000	259,965	1,052,721	98,865	4,489	98,875	4,451	98,866	4,526	1,000,191
	21 Mar. 21, 1968	182	1,810,313	1,000,249	857,780	142,469	764,780	97,473	4,989	97,490	4,965	97,462	5,020	1,000,191
	28 Dec. 28, 1967	91	2,821,455	1,401,154	1,181,532	219,622	385,032	98,830	4,628	98,834	4,613	98,827	4,640	1,300,206
28 Mar. 28, 1968	182	1,844,720	1,000,271	866,426	133,845	243,132	97,400	5,143	97,406	5,131	97,394	5,155	1,000,402	

1968

Oct.	5 Jan.	4	1,400,631	1,173,460	227,171	1,071,492	329,139	98,859	4,513	2	98,808	4,478	98,852	4,542	1,301,501
	12 Jan.	11	1,000,305	852,033	148,272	777,662	222,643	97,437	5,089	2	97,440	5,064	97,418	5,107	1,000,743
	13 Jan.	11	1,501,302	1,253,047	248,265	1,192,943	308,349	98,859	4,563	98,870	4,520	98,852	4,592	1,000,319	
	18 Jan.	18	1,000,840	838,865	161,975	817,153	183,687	97,475	5,022	97,481	4,990	97,467	5,038	1,000,663	
	19 Jan.	18	1,500,372	1,237,204	232,683	1,237,204	263,078	98,818	4,678	98,827	4,640	98,808	4,716	1,000,713	
	19 Apr.	18	1,000,119	848,244	151,875	856,704	143,415	97,389	5,165	97,403	5,137	97,376	5,190	1,000,778	
	26 Jan.	25	1,501,091	1,259,860	241,231	1,139,587	361,504	98,838	4,507	98,841	4,585	98,836	4,605	1,000,678	
	26 Apr.	25	1,000,763	861,617	139,146	758,861	241,902	97,409	5,124	97,421	5,101	97,402	5,139	1,000,257	
	2 Feb.	1	1,001,073	1,290,371	210,702	1,065,956	435,117	98,852	4,543	98,860	4,510	98,848	4,557	1,000,362	
	2 May.	2	999,896	873,877	126,019	747,041	252,855	97,450	5,043	97,453	5,038	97,442	5,060	1,000,934	
	9 Feb.	8	1,501,475	1,279,136	222,339	1,245,360	256,113	98,819	4,674	98,827	4,640	98,814	4,692	1,000,212	
	9 May.	9	1,000,647	867,320	133,827	767,294	233,353	97,381	5,180	97,406	5,131	97,369	5,204	1,000,103	
16 Feb.	15	1,500,890	1,272,740	228,150	1,293,407	270,483	98,825	4,648	98,834	4,613	98,822	4,660	1,000,765		
16 May.	16	1,000,947	851,448	148,499	826,606	173,341	97,394	5,154	97,411	5,121	97,382	5,178	1,000,647		
24 Feb.	23	1,493,996	1,300,379	199,617	1,159,517	340,479	98,739	4,988	98,751	4,941	98,735	5,004	1,001,656		
24 Feb.	23	1,000,010	877,827	122,083	748,033	252,007	97,226	5,517	97,255	5,460	97,204	5,561	1,000,329		
30 Feb.	29	1,502,983	1,302,983	218,978	1,055,018	437,063	98,747	4,957	98,762	4,937	98,743	4,973	1,000,993		
30 Mar.	31	1,002,882	872,034	129,648	747,221	255,361	97,186	5,585	97,206	5,496	97,182	5,544	1,000,911		
Dec.	7 Mar.	7	1,500,259	1,284,087	216,172	1,111,547	358,373	98,739	4,988	98,746	4,961	98,736	5,000	1,000,911	
	7 June.	6	1,000,639	866,785	133,844	766,066	234,512	97,179	5,579	97,190	5,558	97,174	5,590	1,000,625	
	14 Mar.	14	1,500,933	1,287,984	237,884	1,183,935	317,108	98,731	4,943	98,758	4,913	98,746	4,961	1,000,501	
	14 June.	13	1,000,357	840,084	160,273	838,532	196,825	97,223	5,493	97,238	5,463	97,215	5,509	1,000,134	
	21 Mar.	21	1,506,307	1,252,034	214,273	1,176,439	320,881	98,704	5,128	98,739	5,052	98,696	5,175	1,399,965	
	21 June.	20	1,006,112	864,303	141,809	675,007	331,105	97,139	5,659	97,189	5,560	97,131	5,675	1,000,065	
	28 Mar.	28	1,502,159	1,287,261	214,898	1,156,264	335,865	98,739	4,990	98,748	4,963	98,730	5,024	1,401,154	
	28 June.	27	1,003,266	849,686	153,580	759,166	244,100	97,212	5,515	97,224	5,491	97,201	5,536	1,000,439	

1968

Jan.	4	Apr.	4	1,400,631	2,376,751	216,002	1,104,513	396,718	98,710	5,104	98,722	5,056	98,700	5,143	1,400,631
	4	July.	5	1,001,047	874,579	126,468	758,476	242,571	97,157	5,593	97,168	5,571	97,146	5,614	1,000,992
11	11	Jan.	11	1,502,487	1,219,310	283,177	1,231,876	203,611	98,716	5,081	98,731	5,020	98,708	5,111	1,501,302
	11	July.	11	1,001,879	813,098	188,781	798,884	267,015	97,282	5,376	98,723	5,339	97,272	5,396	1,000,444
18	18	Jan.	18	1,502,169	1,252,689	249,480	1,094,379	407,790	98,718	5,070	98,735	5,032	98,716	5,080	1,500,372
	18	Apr.	18	1,000,753	849,978	150,775	708,032	232,721	97,352	5,238	97,360	5,222	97,345	5,246	1,000,696
25	25	Jan.	25	1,503,461	1,248,002	255,459	1,143,384	360,077	98,719	5,067	98,728	5,032	98,717	5,076	1,501,091
	25	July.	25	1,002,368	862,476	139,892	799,590	202,778	97,303	5,334	98,733	5,305	97,300	5,343	1,000,293
Feb.	1	May.	2	1,500,211	1,255,211	244,394	1,183,007	317,204	98,775	4,846	98,783	4,815	98,767	4,878	1,501,073
	1	Aug.	2	999,988	869,933	130,055	738,800	261,188	97,494	4,956	98,745	4,915	97,478	4,989	1,000,375
8	8	May.	9	1,501,384	1,265,964	235,420	1,156,015	345,369	98,747	4,957	98,762	4,908	98,739	4,989	1,501,427
	8	Aug.	8	1,000,965	884,665	116,240	763,193	231,712	97,432	5,120	97,442	5,060	97,397	5,149	1,000,462
15	15	May.	15	1,501,334	1,277,552	223,782	1,237,470	343,864	98,726	5,040	98,734	5,008	98,720	5,064	1,500,890
	15	Aug.	15	1,001,918	882,648	119,270	869,863	192,085	97,333	5,276	98,735	5,234	97,326	5,289	1,000,569
23	23	May.	23	1,500,893	1,276,566	224,324	1,122,985	377,908	98,765	4,939	98,774	4,904	98,758	4,968	1,499,966
	23	Aug.	22	1,000,576	877,492	122,686	776,981	223,197	97,419	5,134	98,743	5,106	97,411	5,149	1,001,494
29	29	May.	31	1,500,576	1,358,701	241,875	1,175,155	425,421	98,706	5,065	98,721	5,005	98,700	5,087	1,502,081
	29	Aug.	29	1,000,438	874,485	125,953	758,744	241,694	97,353	5,235	97,360	5,222	97,350	5,242	1,001,441

Footnotes at end of table.



## Summary of information pertaining to Treasury bills issued during the fiscal year 1968—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity <sup>1</sup>	Maturity value			Tenders accepted		Prices and rates				Amount maturing on issue date of new offering	
			Total accepted	On competitive basis	On non-competitive basis	For cash	In exchange	Total bids accepted		Competitive bids accepted			
								Average price per hundred	Equivalent rate (percent)	High	Low		Price per hundred
Mar.	7 June 6	91	\$2,732,065	\$1,601,583	\$246,290	\$1,175,031	\$426,552	98,736	4.900	98.748	4.953	98.731	\$1,500,259
	7 Sept. 6	182	1,630,961	1,000,041	880,722	177,826	222,215	97,855	5.177	97.392	5.150	97.374	1,001,208
	14 June 13	91	2,388,799	1,600,119	272,103	1,187,460	447,619	98,709	5.107	98.721	5.060	97.704	1,500,933
	21 June 20	182	1,452,890	1,000,198	270,281	1,291,518	308,170	97,310	5.321	97.335	5.271	97.300	1,000,527
	28 June 27	91	2,459,617	1,600,200	267,381	1,206,308	401,424	98,664	5.285	98.676	5.238	98.655	1,506,307
	5 July 5	182	1,847,818	1,007,732	134,361	1,735,967	264,084	97,281	5.377	97.298	5.345	97.271	1,000,240
	12 July 12	91	3,426,841	1,600,527	269,359	1,208,122	292,405	98,689	5.185	98.691	5.178	98.689	1,502,159
	19 July 19	182	1,836,261	1,000,448	269,359	1,203,375	397,058	98,685	5.266	98.711	5.044	98.673	1,001,271
	26 July 26	91	2,601,045	1,600,485	311,937	1,289,513	310,972	98,658	5.310	98.673	5.250	98.649	1,501,305
	3 Oct. 3	182	1,883,524	1,000,511	186,248	827,843	172,663	97,270	5.399	97.286	5.368	97.260	1,502,480
Apr.	11 Oct. 10	91	3,256,069	1,602,462	276,619	1,216,052	386,410	98,619	5.462	98.626	5.436	98.616	1,502,160
	18 July 18	91	2,492,508	1,102,644	140,860	878,559	223,985	97,185	5.563	97.200	5.538	97.180	1,000,119
	25 Oct. 24	182	2,614,047	1,601,006	130,831	1,205,457	395,519	98,599	5.543	98.614	5.483	98.593	1,503,461
	1 May 1	91	2,828,060	1,600,682	146,884	819,020	281,612	97,124	5.689	97.138	5.661	97.114	1,000,753
	8 May 8	182	2,703,982	1,600,432	132,414	1,189,818	416,614	98,610	5.498	98.617	5.471	98.606	1,500,211
	15 May 15	91	1,966,240	1,000,119	96,675	827,779	272,340	97,103	5.611	97.176	5.586	97.154	999,806
	22 May 22	182	2,493,575	1,600,291	134,565	1,260,228	340,033	98,608	5.506	98.615	5.479	98.603	1,501,884
	29 May 29	91	2,176,290	1,101,578	120,980	804,804	239,952	97,120	5.697	97.135	5.667	97.116	1,000,647
	5 June 5	182	2,410,850	1,600,009	136,426	1,273,089	320,326	98,505	5.557	98.607	5.511	98.590	1,501,331
	12 June 12	91	2,064,872	1,101,062	135,573	848,887	252,175	97,063	5.750	97.108	5.720	97.084	999,947
June	19 June 19	182	2,526,110	1,600,680	243,570	1,216,740	383,940	98,522	5.854	98.534	5.804	98.517	1,500,893
	26 June 26	91	2,149,839	1,100,119	114,482	797,510	302,609	96,969	5.996	96.985	5.964	96.959	1,000,010
	3 July 3	182	2,291,636	1,600,036	258,093	1,204,808	395,228	98,576	5.697	98.583	5.668	98.566	1,500,576
	10 July 10	91	2,154,206	1,099,821	137,418	838,566	261,255	97,033	5.869	97.030	5.857	97.026	999,576
	17 July 17	182	2,409,758	1,600,368	251,155	1,238,379	361,989	98,572	5.690	98.570	5.622	98.564	1,501,583
	24 July 24	91	2,365,290	1,099,439	114,985	866,866	232,573	97,119	5.699	97.128	5.681	97.101	1,000,639
	31 July 31	182	2,041,048	1,600,427	136,703	836,668	263,453	98,556	5.711	98.569	5.661	98.552	1,500,119
	7 Aug. 7	91	2,628,298	1,600,487	322,465	1,173,558	426,822	98,590	5.598	98.584	5.602	98.584	1,500,357
	14 Aug. 14	182	2,041,048	1,100,121	109,418	1,173,558	426,822	98,590	5.598	98.584	5.558	98.578	1,000,198
	21 Aug. 21	91	2,590,531	1,600,480	284,340	1,173,558	426,822	98,590	5.598	98.584	5.558	98.578	1,000,198
Sept.	28 Sept. 28	182	1,968,531	1,100,851	142,804	796,359	304,492	97,152	5.633	97.170	5.598	97.142	1,006,112
	5 Oct. 5	91	2,375,249	1,599,999	131,074	1,167,275	432,724	98,676	5.237	98.690	5.345	98.649	1,007,732
	12 Oct. 12	182	1,967,927	1,105,037	152,715	801,319	303,718	97,227	5.485	97.250	5.440	97.205	1,003,266
	19 Oct. 19	91											

## REGULAR MONTHLY

1967	July 31	274	\$1,196,723	\$500,273	\$481,455	\$18,818	\$440,063	\$60,210	96,070	5,164	2 94,774	2 96,084	5,145	96,038	5,206	\$500,370
	Aug. 31	366	2,587,403	1,000,551	483,292	17,259	739,879	240,672	94,764	5,150	2 94,774	2 96,084	5,140	94,744	5,170	994,844
	Sept. 31	274	1,907,305	1,000,686	479,882	20,804	349,975	150,711	96,120	5,097	2 94,881	2 96,164	5,040	96,099	5,125	500,717
	Oct. 31	366	1,401,681	1,000,336	357,886	42,430	774,810	225,526	94,815	5,100	2 94,881	2 96,164	5,035	94,774	5,140	1,000,051
	Nov. 31	272	1,253,819	1,000,065	478,338	21,647	381,611	118,394	96,113	5,124	2 94,881	2 96,164	5,090	96,095	5,168	500,050
	Dec. 31	366	1,250,636	1,000,206	943,338	56,868	789,854	280,352	94,791	5,133	2 94,881	2 96,164	5,080	94,745	5,169	900,113
	1968	274	1,231,979	1,000,329	485,561	14,968	379,958	120,571	95,956	5,301	2 94,881	2 96,164	5,279	95,944	5,329	501,100
	Jan. 31	366	2,073,639	1,001,770	961,988	39,782	789,957	211,813	94,610	5,301	2 94,881	2 96,164	5,275	94,592	5,319	904,640
	Feb. 29	275	1,263,705	1,000,175	483,938	16,237	424,491	75,684	95,858	5,422	2 94,881	2 96,164	5,390	95,838	5,448	499,956
	Mar. 31	366	1,766,987	1,000,262	965,857	34,405	774,385	225,877	94,479	5,431	2 94,881	2 96,164	5,385	94,429	5,480	900,493
	Apr. 30	272	1,137,110	500,190	483,215	16,975	311,615	188,575	95,803	5,555	2 94,881	2 96,164	5,515	95,777	5,589	500,091
1969	May 31	366	1,492,945	999,945	953,599	46,346	728,529	271,416	94,304	5,544	2 94,881	2 96,164	5,500	94,307	5,600	901,031
	June 30	274	1,209,230	500,170	485,372	14,798	336,647	163,523	96,001	5,254	2 94,881	2 96,164	5,219	95,970	5,295	500,445
	July 31	366	1,604,238	1,000,078	956,803	43,775	719,059	281,019	94,645	5,207	2 94,881	2 96,164	5,228	94,578	5,335	900,967
	Aug. 31	275	1,348,327	500,257	484,400	15,857	349,955	150,302	95,998	5,240	2 94,881	2 96,164	5,209	95,975	5,269	500,040
	Sept. 30	365	1,519,526	1,001,786	973,641	28,145	750,931	250,855	94,646	5,281	2 94,881	2 96,164	5,220	94,587	5,339	901,029
	Oct. 31	274	1,119,729	499,549	484,346	15,203	339,098	160,451	95,872	5,423	2 94,881	2 96,164	5,358	95,840	5,466	500,329
	Nov. 30	365	1,522,679	1,000,119	968,236	31,883	736,300	263,819	94,449	5,475	2 94,881	2 96,164	5,389	94,373	5,550	900,047
	Dec. 31	276	1,439,541	500,387	483,196	17,191	350,151	150,236	95,657	5,665	2 94,881	2 96,164	5,650	95,645	5,680	500,273
	1970	365	2,304,585	1,000,784	962,453	38,331	726,717	274,067	94,258	5,663	2 94,881	2 96,164	5,650	94,241	5,680	902,021
	Jan. 31	273	1,140,194	500,444	486,451	13,993	350,270	150,174	95,355	6,086	2 94,881	2 96,164	6,040	95,353	6,128	500,686
	Feb. 28	365	1,861,382	1,002,217	973,689	28,528	721,678	280,539	93,837	6,079	2 94,881	2 96,164	6,035	93,805	6,110	900,146

Footnotes at end of table.

*Summary of information pertaining to Treasury bills issued during the fiscal year 1968—Continued*  
 (Dollar amounts in thousands)

Date of issue	Date of maturity	Days to maturity <sup>1</sup>	Maturity value			Prices and rates						Amount maturing on issue on date of new offering	
			Total applied for	Tenders accepted		In exchange	Total bids accepted		Competitive bids accepted		Price per hundred (percent)		
				On competitive basis	On non-competitive basis		Average price per hundred	Equivalent rate (percent)	High	Low			
TAX ANTICIPATION													
1967	Mar. 22	255	\$3,251,304	\$2,003,379	\$1,732,975	\$270,404	\$2,003,379	96.557	4.861	2 96.607	4.790	96.522	4.910
	July 11	286	3,027,417	2,000,967	1,775,550	225,417	2,000,967	96.108	4.898	2 96.171	4.820	96.065	4.953
	Oct. 9	196	3,217,332	1,506,037	1,318,800	187,237	1,506,037	97.314	4.934	97.327	4.910	97.306	4.948
	June 24	259	3,279,317	3,005,517	2,807,350	193,167	3,005,517	96.325	5.108	96.381	5.030	96.250	5.212
1968													
Jan. 15	June 24	161	6,359,775	2,528,267	2,132,982	395,285	2,528,267	97.738	5.058	2 97.788	4.946	97.727	5.082

<sup>1</sup> The 13-week bills are additional issues of bills with an original maturity of 26 weeks, except that when the date of maturity of either a 13-week or 26-week issue is on the last day of a month, the bills are additional issues of bills with an original maturity of 1 year. The 6-month bills are additional issues of bills with an original maturity of 1 year.

<sup>2</sup> Relatively small amounts of bids were accepted at a price or prices somewhat above the high shown. However, the higher price or prices are not shown in order to prevent an appreciable discontinuity in the range (covered by the high to the low prices shown) which would make it misrepresentative.

<sup>3</sup> Issue date on bills is last day of previous month.

<sup>4</sup> On July 1, 1968, 273-day bills to mature Mar. 31, 1969, were issued in the amount of \$500 million with an equivalent average rate of 5.745 percent, and 365-day bills, dated June 30, 1968, were issued in the amount of \$1,002 million with an equivalent average rate of 5.732 percent.

Figures are final and may differ from those shown in the press release announcing preliminary results.

For each issue of regular weekly (13-week and 26-week bills) and regular monthly (9-month and 1-year) bills noncompetitive tenders for \$200,000 or less from any 1 bidder were accepted in full at the average price of accepted competitive bids. For each issue of tax anticipation bills the maximum amount for noncompetitive tenders was \$400,000 except for the 196-day issue of October 9 when the amount was \$300,000.

All equivalent rates of discount are on a bank-discount basis. Qualified depositaries were permitted to make payment by credit in Treasury tax and loan accounts for 100 percent of the tax anticipation series issued July 11 and January 15, and for not more than 75 percent of the tax anticipation series issued October 9, allotted to them for themselves and their customers up to any amount for which they were qualified in excess of existing deposits when so notified by the Federal Reserve bank of their district. Payment by credit in Treasury tax and loan accounts for the regular weekly and regular monthly bills was not permitted.

NOTE.—The usual timing with respect to weekly issues of Treasury bills is: Press release inviting tenders, 8 days before date of issue; and closing date for the receipt of tenders and press release announcing results of auction, 3 days before date of issue.

## Regulations

## Exhibit 3.—Second Amendment, November 7, 1967, of Department Circular No. 300, general regulations with respect to United States securities

TREASURY DEPARTMENT,  
Washington, November 7, 1967.

Department Circular No. 300, Third Revision, dated December 23, 1964, as amended, is hereby further amended effective January 1, 1968, by redesignating Subpart O (entitled "Miscellaneous Provisions") as Subpart P, and renumbering Secs. 306.115 through 306.118 as Secs. 306.123 through 306.126, respectively, and by inserting a new Subpart O as follows:

## SUBPART O—BOOK-ENTRY PROCEDURE

Sec. 306.115. *Definition of terms.*

In this subpart, unless the context otherwise requires or indicates:

(a) "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

(b) "Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of a definitive Treasury security or a book-entry Treasury security.

(c) "Definitive Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in engraved or printed form.

(d) "Book-entry Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of an entry made as prescribed in this subpart on the records of a Reserve Bank.

(e) "Serially-numbered advice of transaction" means the confirmation (prescribed in Sec. 306.116) issued by a Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry Treasury security (or securities) has been executed.

Sec. 306.116. *Authority of Reserve Banks.*

Each Reserve Bank is hereby authorized and directed, in accordance with the provisions of this subpart, to (a) issue book-entry Treasury securities by means of entries on its records which shall include the name of the depositor, the amount, the title of the loan (or the series) and the maturity date; (b) effect conversions between book-entry Treasury securities and definitive Treasury securities; (c) otherwise service and maintain book-entry Treasury securities; and (d) issue serially-numbered advices of transactions with respect to each instruction relating to the deposit or withdrawal of a book-entry Treasury security (or securities) which has been executed. Each such advice shall confirm that book-entry Treasury securities of the amount, loan title (or series) and maturity date specified in the depositor's instruction have been deposited or withdrawn.

Sec. 306.117. *Scope of book-entry procedure.*

(a) The book-entry procedure shall apply to Treasury securities now on deposit or hereafter deposited in accounts with any Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circulars No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account and in lieu of the safekeeping of definitive Treasury securities by a Reserve Bank in its individual capacity. Any depositor which on the effective date of this subpart has definitive Treasury securities on deposit with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose specified above or which thereafter deposits such securities for any such purpose shall be deemed to have consented to their conversion to book-entry Treasury securities pursuant to the provisions of this subpart, and in the manner and under the procedures prescribed by the Reserve Bank.

(b) The book-entry procedure may be applied to any Treasury securities now on deposit or hereafter deposited with any Reserve Bank for any other purpose under such terms and conditions as may be prescribed by the Reserve Bank with the approval of the Secretary of the Treasury.



(c) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.<sup>1</sup>

Sec. 306.118. *Pledges.*

A pledge of book-entry Treasury securities, or of any interest therein, in favor of a Reserve Bank in its own right as pledgee or in favor of the United States as pledgee, is effected, notwithstanding any provision of law to the contrary, by the making of an appropriate entry under paragraph (a) (1) or (2) of Sec. 306.117, of the amount of the securities pledged. The making of such entry shall have the effect of a delivery of definitive Treasury securities in bearer form representing the amount of the obligations pledged and shall effect a perfected security interest therein in favor of the pledgee, who shall be a holder. No filing or recording with a public recording office or officer shall be necessary to perfect the pledge or security interest in book-entry Treasury securities under this section. Pledges of definitive Treasury securities, or of any security interest therein, to a Reserve Bank in its own right or to the United States at the time of their conversion to book-entry Treasury securities shall be fully effective with respect to such book-entry Treasury securities. A Reserve Bank, when requested by the pledgee, shall convert book-entry Treasury securities into definitive Treasury securities and deliver them to the pledgee for disposition under the applicable pledge arrangement; and the pledge or security interest of the pledgee in the book-entry Treasury securities prior to conversion shall continue to be fully effective with respect to such definitive Treasury securities.

Sec. 306.119. *Limitations on transfers or pledges.*

Except as provided in this subpart, book-entry Treasury securities may not be assigned, transferred, hypothecated, pledged as collateral, or used as security for the performance of an obligation, and the Treasury Department will not recognize any such assignment, transfer, hypothecation, pledge or use.

Sec. 306.120. *Withdrawals and transfers.*<sup>2</sup>

Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor requesting (a) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (b) transfer to any transferee eligible under Sec. 306.117. The making of any book-entry transfer by a Reserve Bank shall have the same effect as a delivery to the transferee of definitive Treasury securities in bearer form. The transfer of book-entry Treasury securities within a Reserve Bank will be made in accordance with procedures established by the latter not inconsistent with this subpart. The transfer of book-entry Treasury securities between Reserve Banks will be made through a telegraphic transfer procedure. All requests for withdrawal or for transfer must be made prior to the maturity or date of call of the securities. Treasury bonds and notes which are actually to be delivered upon withdrawal or transfer may be issued either in registered<sup>3</sup> or in bearer form.

Sec. 306.121. *Registered bonds and notes.*

No formal assignment shall be required for the conversion to book-entry Treasury securities of registered Treasury securities held by a Reserve Bank (in either its individual capacity or as Fiscal Agent) on the effective date of this subpart for any purpose specified in Sec. 306.117(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in Sec. 306.117 shall be assigned for conversion to book-entry Treasury securities. The assignment, which shall be executed in accordance with the provisions of subpart F of these regulations, so far as applicable, shall be to "Federal Reserve Bank of \_\_\_\_\_, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities."

Sec. 306.122. *Servicing book-entry Treasury securities; payment of interest, payment at maturity or upon call.*

<sup>1</sup> The date of call as defined in these regulations (Sec. 306.2) is "the date fixed in the official notice of call published in the Federal Register \* \* \* on which the obligor will make payment of the security before maturity in accordance with its terms."

<sup>2</sup> There is an Appendix hereto which contains information regarding the identification of book-entry Treasury securities for Federal income tax purposes and the accounting separation for such purposes on books of dealers. Although dealers in Treasury securities are not eligible as *dealers* to have them in book-entry form under these regulations, if they or any other depositors are dealers in other types of securities they must meet the requirements of Sec. 1236 of the Internal Revenue Code to establish that they are holding the book-entry Treasury securities for investment.

<sup>3</sup> Except for Treasury notes, EA and EO series.

Interest becoming due on book-entry Treasury securities shall be charged in the Treasurer's account on the interest due date and remitted or credited in accordance with the depositor's instructions. Such securities shall be redeemed and charged in the Treasurer's account on the date of maturity, call or advance refunding, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositor's instructions.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary.*

## APPENDIX

### RECORDS FOR FEDERAL INCOME TAX PURPOSES

Section 1.1012-1(c) of the Federal Income Tax Regulations provides certain rules regarding the identification of securities for the purpose of determining the basis (normally cost) and holding period of assets—data relevant in ascertaining the amount and nature of gain or loss upon the sale or transfer of the assets.

Subparagraph (7) of section 1.1012-1(c) of the Income Tax Regulations (added by Treasury Decision 6934, quoted below) provides a special rule for the identification of a book-entry Treasury security directed to be disposed of by the owner.<sup>1</sup> The special rule permits the serially-numbered advice of transaction (required by sec. 306.116 of the Fiscal Service Regulations to which this is appended) issued by a Reserve Bank upon completion of a transaction, when made pursuant to written instructions, to be used in identifying the particular security sold or transferred. The written instruction and advice of transaction constitute adequate identification.

Revenue Ruling 67-419 (set forth below) particularizes the manner in which the identification may be made by requiring the written instruction to identify the particular book-entry Treasury security either by purchase date and cost or by reference, where applicable, simply to the serially-numbered advice of transaction relating to its acquisition. This latter method applies only to a limited class of case—that is, where the securities are acquired by a Reserve Bank for the owner in book-entry form, either upon original subscription to a Treasury offering or otherwise.<sup>2</sup>

It is important for a taxpayer to comply fully with the special rule of section 1.1012-1(c) (7) of the Income Tax Regulations if it wishes to be certain that the "first-in, first-out" (FIFO) rule of section 1.1012-1(c) (1) of the cited regulations will not apply to its disposition of a book-entry Treasury security.

Although dealers in any securities are not eligible as *dealers* to hold a Treasury security in book-entry form under the present Fiscal Service Regulations, if they are otherwise eligible to do so, they may hold such a security in the form of a book-entry for investment purposes. Since all dealers in securities are subject to the requirements of section 1236 of the Internal Revenue Code, the Revenue Ruling set forth below also provides a method for them to use in identifying a book-entry Treasury security held for investment which satisfies section 1236. Whenever a book-entry security is acquired on original issue or otherwise for the account of the owner, the Reserve Bank will issue a serially-numbered advice. The entry on the taxpayer's books of account of the number of the advice, together with a description of the security acquired to which it relates and an indication that it is held for investment, will be sufficient to identify it as being held for investment purposes.

<sup>1</sup> It should be noted that this rule is only appropriate where the disposing owner retains one or more securities of precisely the same description which it had acquired on a different date or at a different price. Where a security of precisely the same description acquired on a different date or at a different price is not retained, there is no problem of identifying the securities being sold or transferred, since either no others of similar description are owned, or they are from the same lot.

<sup>2</sup> The serially-numbered advice of transaction issued by a Federal Reserve Bank in this or any other type of case in or in connection with book entry will not contain price and date of acquisition but in this type of case the advice relating to the acquisition can be used to identify the particular book-entry security involved. Since the mere conversion by a Reserve Bank of definitive Treasury securities owned by a depositor into book-entry form (or vice versa) occurs after the depositor-taxpayer's books of account properly should reflect their acquisition, which might have been at different times or at different prices, the number of a serially-numbered advice of transaction relating to such conversion affords no adequate means of identifying a particular security for purposes of either section 1012 or section 1236 of the Internal Revenue Code of 1954.

(T.D. 6934)

## Title 26—INTERNAL REVENUE

## Chapter I—Internal Revenue Service, Department of the Treasury

## Subchapter A—Income Tax

## (INCOME TAX REGULATIONS)

## PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

*Identification of book-entry Treasury securities*

DEPARTMENT OF THE TREASURY  
Office of Commissioner of Internal Revenue,  
Washington, D.C. 20224

TO OFFICERS AND EMPLOYEES OF THE INTERNAL REVENUE SERVICE  
AND OTHERS CONCERNED:

In order to modify the identification rules for purposes of determining basis and holding period of property in the case of certain Treasury securities, paragraph (c) of Sec. 1.1012-1 of the Income Tax Regulations (26 CFR Part 1) is amended by adding a new subparagraph (7) to read as follows:

Sec. 1.1012-1 Basis of property.

\* \* \* \* \*

(c) *Sale of stock.* \* \* \*

(7) *Book-entry Treasury securities.*

(i) In applying the provisions of subparagraph (3) (i) (b) of this paragraph in the case of a sale or transfer of a book-entry Treasury security which is made pursuant to a written instruction by the seller or transferor, the serially-numbered advice of transaction prescribed by the Fiscal Service of the Department of the Treasury and furnished by a Reserve Bank shall constitute confirmation as required by such subparagraph.

(ii) For purposes of this subparagraph:

(a) The term "book-entry Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act (31 U.S.C. 774 (2)), as amended, in the form of an entry made as prescribed in 31 CFR Part 306, Subpart O, on the records of a Reserve Bank which is deposited in an account with a Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circular No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account for safekeeping by a Reserve Bank in its individual capacity;

(b) The term "serially-numbered advice of transaction" means the confirmation (prescribed in 31 CFR 306.116) issued by the Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry Treasury security (or securities) has been executed; and

(c) The term "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

\* \* \* \* \*

Because this Treasury decision merely liberalizes the identification rules for purposes of determining basis and holding period in the case of certain securities, it is found that it is unnecessary to issue this Treasury decision with notice and public procedure thereon under 5 U.S.C. 553 (b), or subject to the effective date limitation of 5 U.S.C. 553 (d).



(This Treasury decision is issued under the authority contained in Section 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805).)

(Signed) SHELDON S. COHEN,  
*Commissioner of Internal Revenue.*

APPROVED: November 7, 1967

(Signed) STANLEY S. SURREY,  
*Assistant Secretary of the Treasury.*

#### SECTION 1012.—BASIS OF PROPERTY—COST

26 CFR 1.1012-1: Basis of property.  
(Also Section 1236; 1.1236-1.)

Rev. Rul. 67-419

Section 1.1012-1(c)(7) of the Income Tax Regulations provides a special rule for the identification of a "book-entry Treasury security" (which is a "bond" under section 1.1012-1(c)(6) of the regulations) directed to be disposed of by the owner who holds securities of precisely the same description which were acquired on different dates or at different prices. This special rule permits the "serially-numbered advice of transaction" prescribed by the Fiscal Service of the Department of the Treasury and furnished by a "Reserve Bank" (as those terms are defined in section 1.1012-1(c)(7) of the regulations) to satisfy the requirements of section 1.1012-1(c)(3)(i)(b) of the regulations for a written confirmation if made pursuant to a written instruction by the seller or transferor. In such case, if the written instruction identifies the book-entry Treasury security to be sold either by purchase date and cost, or by reference to the serially-numbered advice of transaction relating to the acquisition, and a copy thereof is associated with the serially-numbered advice of transaction received from the Reserve Bank upon disposition, the identification requirement of section 1.1012-1(c)(3)(i) of the regulations shall be considered satisfied. Compare Rev. Rul. 61-97, C.B. 1961-1, 394, which provides a rule of identification in the circumstances described therein. Where the identification requirements of section 1.1012-1(c)(3)(i) of the regulations are satisfied in the manner provided for above, the rule stated in the first sentence of section 1.1012-1(c)(1) of the regulations will not be applied.

For the purpose of determining when a security is clearly identified in the records of a dealer in securities as a security held for investment within the meaning of section 1236 of the Internal Revenue Code of 1954, section 1.1236-1(d)(1) of the regulations provides that an investment security is clearly identified where there is an accounting separation of the security from other securities, as by making appropriate entries in the dealer's books of account to distinguish it from inventories and to designate it as an investment, and by (i) indicating with such entries the individual serial number of, or other characteristic symbol imprinted upon, the individual security, or (ii) adopting any other method of identification satisfactory to the Commissioner.

Using the definitions found in section 1.1012-1(c)(7) of the regulations wherever applicable here, the identification of a particular book-entry Treasury security in the dealer's books of account by reference to the serially-numbered advice of transaction furnished by the Reserve Bank upon the acquisition of such security is a method of identification satisfactory to the Commissioner under section 1.1236-1(d)(1)(ii) of the regulations.

#### Exhibit 4.—Second Supplement, February 29, 1968, of Department Circular No. 653, offering of United States savings bonds, Series E

TREASURY DEPARTMENT,  
*Washington, February 29, 1968.*

Table 52,<sup>1</sup> showing the investment yields to maturity for Series E Savings Bonds with issue dates from June 1 through November 1, 1960, which is a part of Department Circular No. 653, Seventh Revision, dated March 18, 1966,<sup>2</sup> as

<sup>1</sup> See exhibit 5.

<sup>2</sup> See 1966 annual report, page 253.



amended (31 CFR, Part 316), is hereby supplemented by addition of the redemption values and investment yields for the extended maturity period, as set forth below.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary of the Treasury.*

**Exhibit 5.—Fourth amendment, June 19, 1968, to Department Circular No. 653, Seventh Revision, offering of United States savings bonds, Series E**

TREASURY DEPARTMENT,  
*Washington, June 19, 1968.*

Treasury Department Circular No. 653, Seventh Revision, dated March 18, 1966, as revised and amended (31 CFR Part 316), is hereby further amended and revised as follows:

Sec. 316.1. *Offering of bonds.*—The Secretary of the Treasury hereby offers for sale to the people of the United States, United States Savings Bonds of Series E, hereinafter generally referred to as "Series E bonds" or "bonds." This offering, which shall be effective June 1, 1968, will continue until terminated by the Secretary of the Treasury.

Sec. 316.2. *Description of bonds.* \* \* \*

(b) *Denominations and prices.*—Series E bonds are issued on a discount basis. The denominations and purchase prices are:

<i>Denomination</i>	<i>Purchase price</i>
\$25 -----	\$18. 75
50 -----	37. 50
75 -----	56. 25
100 -----	75. 00
200 -----	150. 00
500 -----	375. 00
1,000 -----	750. 00
10,000 -----	7, 500. 00
100,000 <sup>1</sup> -----	75, 000. 00

\* \* \*

(e) *Investment yield (interest).*—The investment yield (interest) on a Series E bond with issue date of June 1, 1968, or thereafter, will be approximately 4.25 percent per annum compounded semiannually, if the bond is held to maturity<sup>2</sup> but the yield will be less if the bond is redeemed prior to maturity. The interest will be paid as a part of the redemption value. For the first six months from issue date the bond will be redeemable only at purchase price. Thereafter, its redemption value will increase at the beginning of each successive half-year period. See table 1.

(f) *Stock for bonds issued on and after June 1, 1968.*—Series E bond stock in use prior to June 1, 1968, will be used for bonds issued hereunder until such time as new stock is printed and supplied to issuing agents. THE NEW INVESTMENT YIELD AND REDEMPTION VALUES SHALL APPLY TO SUCH BONDS AS FULLY AS IF EXPRESSLY SET FORTH IN THE TEXT. They will be redeemed by all paying agents at the redemption values in Table 1. Accordingly, it is not necessary for owners to exchange bonds on old stock when the new stock is available but they may do so if they wish by presenting bonds issued on and after June 1, 1968, on old stock to any Federal Reserve Bank or Branch, or to the Treasurer of the United States, Securities Division, Washington, D.C. 20220.

Sec. 316.8. *Extended terms and improved yields on outstanding bonds.*

\* \* \*

<sup>1</sup> The \$100,000 denomination is available only for purchase by trustees of employees' savings and savings and vacation plans (see Sec. 316.5(c) of Department Circular No. 653, Seventh Revision).

<sup>2</sup> Under authority of Section 25, 73 Stat. 621 (31 U.S.C. 757c-1), the President of the United States on May 31, 1968, concluded that with respect to Series E bonds it was necessary in the national interest to exceed the maximum interest rate and investment yield prescribed by Section 22 of the Second Liberty Bond Act, as amended (31 U.S.C. 757c).

(b) *Improved yields.*<sup>1</sup>—The investment yield on outstanding bonds is increased by  $\frac{1}{10}$  of 1 percent per annum compounded semiannually but only if the bonds are held to the next maturity date and there is an intervening or final six-month interest accrual period. In addition, the investment yield for any presently authorized subsequent extension period will be 4.25 percent per annum compounded semiannually provided the bonds are held to the maturity date for that period. Interim redemption values remain unchanged and the increases, which will be computed from the first six-month interest accrual period starting on or after the following dates, is conditioned on retention of the bonds to next maturity and, as appropriate, to the end of the authorized subsequent extension period:

(1) *March 1, 1968.*—For bonds with issue dates of June 1, 1959, through November 1, 1960.

(2) *May 1, 1968.*—For bonds with issue dates of February 1, 1957, through May 1, 1959.

(3) *June 1, 1968.*—For bonds with issue dates of May 1, 1941, through January 1, 1957, and December 1, 1960, through May 1, 1968.

The Secretary of the Treasury may at any time prior to their maturity prescribe a different yield for the extended maturity period for bonds for which no tables of redemption values and investment yields have been previously provided for such period. The tables, which are a part of this circular, will be published periodically for the extended maturity for bonds bearing issue dates of June 1, 1961, or thereafter.<sup>2</sup>

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary of the Treasury.*

TABLES OF REDEMPTION VALUES AND INVESTMENT YIELDS FOR UNITED STATES SAVINGS BONDS OF SERIES E

Each table shows: (1) the redemption value for each successive half-year term of holding during the current maturity period and the authorized redemption values during any subsequent maturity period, on bonds bearing issue dates covered by the table; (2) for each maturity period shown, the approximate investment yield on the redemption value at the beginning of such maturity period to the beginning of each half-year period thereafter; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to next maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

TABLE 1  
BONDS BEARING ISSUE DATES BEGINNING JUNE 1, 1968

Issue price..... Denomination.....	\$18. 75 25. 00	\$37. 50 50. 00	\$56. 25 75. 00	\$75. 00 100. 00	\$150. 00 200. 00	\$375. 00 500. 00	\$750. 00 1, 000. 00	\$7, 500 10, 000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to beginning of each half-year period	(3) On current redemption value from beginning of each half-year period to maturity
									Percent	Percent
First $\frac{1}{2}$ year.....	\$18. 75	\$37. 50	\$56. 25	\$75. 00	\$150. 00	\$375. 00	\$750. 00	\$7, 500	0. 00	4. 25
$\frac{1}{2}$ to 1 year.....	18. 96	37. 92	56. 88	75. 84	151. 68	379. 20	758. 40	7, 584	2. 24	4. 40
1 to $1\frac{1}{2}$ years.....	19. 32	38. 64	57. 96	77. 28	154. 56	386. 40	772. 80	7, 728	3. 02	4. 45
$1\frac{1}{2}$ to 2 years.....	19. 70	39. 40	59. 10	78. 80	157. 60	394. 00	788. 00	7, 880	3. 32	4. 50
2 to $2\frac{1}{2}$ years.....	20. 10	40. 20	60. 30	80. 40	160. 80	402. 00	804. 00	8, 040	3. 51	4. 54
$2\frac{1}{2}$ to 3 years.....	20. 52	41. 04	61. 56	82. 08	164. 16	410. 40	820. 80	8, 208	3. 64	4. 58
3 to $3\frac{1}{2}$ years.....	20. 96	41. 92	62. 88	83. 84	167. 68	419. 20	838. 40	8, 384	3. 75	4. 62
$3\frac{1}{2}$ to 4 years.....	21. 42	42. 84	64. 26	85. 68	171. 36	428. 40	856. 80	8, 568	3. 84	4. 65
4 to $4\frac{1}{2}$ years.....	21. 89	43. 78	65. 67	87. 56	175. 12	437. 80	875. 60	8, 756	3. 91	4. 70
$4\frac{1}{2}$ to 5 years.....	22. 37	44. 74	67. 11	89. 48	178. 96	447. 40	894. 80	8, 948	3. 96	4. 76
5 to $5\frac{1}{2}$ years.....	22. 86	45. 72	68. 58	91. 44	182. 88	457. 20	914. 40	9, 144	4. 00	4. 85
$5\frac{1}{2}$ to 6 years.....	23. 36	46. 72	70. 08	93. 44	186. 88	467. 20	934. 40	9, 344	4. 04	5. 01
6 to $6\frac{1}{2}$ years.....	23. 88	47. 76	71. 64	95. 52	191. 04	477. 60	955. 20	9, 552	4. 07	5. 29
$6\frac{1}{2}$ to 7 years.....	24. 42	48. 84	73. 26	97. 68	195. 36	488. 40	976. 80	9, 768	4. 11	6. 06
<b>MATURITY VALUE</b> (7 years from issue date).....	25. 16	50. 32	75. 48	100. 64	201. 28	503. 20	1, 006. 40	10, 064	4. 25	-----

<sup>1</sup> See Sec. 316.8(b) and footnote 8 of Department Circular No. 653, Seventh Revision, as amended, for earlier yields.

<sup>2</sup> In effect since Feb. 23, 1967.

**TABLE 2**  
**BONDS BEARING ISSUE DATE OF MAY 1, 1941**

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year..... <sup>1</sup> (5/1/61)	\$33.63	\$67.26	\$134.52	\$672.60	\$1,345.20	0.00	3.75
½ to 1 year..... <sup>1</sup> (11/1/61)	34.26	68.52	137.04	685.20	1,370.40	3.75	3.75
1 to 1½ years..... <sup>1</sup> (5/1/62)	34.90	69.80	139.60	698.00	1,396.00	3.74	3.75
1½ to 2 years..... <sup>1</sup> (11/1/62)	35.56	71.12	142.24	711.20	1,422.40	3.76	3.75
2 to 2½ years..... <sup>1</sup> (5/1/63)	36.22	72.44	144.88	724.40	1,448.80	3.74	3.75
2½ to 3 years..... <sup>1</sup> (11/1/63)	36.90	73.80	147.60	738.00	1,476.00	3.75	3.75
3 to 3½ years..... <sup>1</sup> (5/1/64)	37.60	75.20	150.40	752.00	1,504.00	3.75	3.75
3½ to 4 years..... <sup>1</sup> (11/1/64)	38.30	76.60	153.20	766.00	1,532.00	3.75	3.75
4 to 4½ years..... <sup>1</sup> (5/1/65)	39.02	78.04	156.08	780.40	1,560.80	3.75	3.75
4½ to 5 years..... <sup>1</sup> (11/1/65)	39.75	79.50	159.00	795.00	1,590.00	3.75	3.75
5 to 5½ years..... <sup>1</sup> (5/1/66)	40.50	81.00	162.00	810.00	1,620.00	3.75	3.75
5½ to 6 years..... <sup>1</sup> (11/1/66)	41.26	82.52	165.04	825.20	1,650.40	3.75	3.75
6 to 6½ years..... <sup>1</sup> (5/1/67)	42.06	84.12	168.24	841.20	1,682.40	3.76	3.75
6½ to 7 years..... <sup>1</sup> (11/1/67)	42.90	85.80	171.60	858.00	1,716.00	3.78	3.75
7 to 7½ years..... <sup>1</sup> (5/1/68)	43.76	87.52	175.04	875.20	1,750.40	3.80	3.75
7½ to 8 years..... <sup>1</sup> (11/1/68)	44.66	89.32	178.64	893.20	1,786.40	3.82	3.75
8 to 8½ years..... <sup>1</sup> (5/1/69)	45.60	91.20	182.40	912.00	1,824.00	3.84	3.75
8½ to 9 years..... <sup>1</sup> (11/1/69)	46.57	93.14	186.28	931.40	1,862.80	3.87	3.75
9 to 9½ years..... <sup>1</sup> (5/1/70)	47.58	95.16	190.32	951.60	1,903.20	3.89	3.75
9½ to 10 years..... <sup>1</sup> (11/1/70)	48.64	97.28	194.56	972.80	1,945.60	3.92	3.75
<b>SECOND EXTENDED MATURITY</b> <b>VALUE (20 years from original</b> <b>maturity date)<sup>1</sup>.....(5/1/71)</b>	<b>49.86</b>	<b>99.72</b>	<b>199.44</b>	<b>997.20</b>	<b>1,994.40</b>	<b>3.98</b>	<b>5.02</b>

<sup>1</sup> Month, day, and year on which issues of May 1, 1941, enter each period.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.29 percent.

**TABLE 3**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1941**

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year..... <sup>1</sup> (6/1/61)	\$33.73	\$67.46	\$134.92	\$674.60	\$1,349.20	0.00	3.75
½ to 1 year..... <sup>1</sup> (12/1/61)	34.36	68.72	137.44	687.20	1,374.40	3.74	3.75
1 to 1½ years..... <sup>1</sup> (6/1/62)	35.01	70.02	140.04	700.20	1,400.40	3.76	3.75
1½ to 2 years..... <sup>1</sup> (12/1/62)	35.66	71.32	142.64	713.20	1,426.40	3.74	3.75
2 to 2½ years..... <sup>1</sup> (6/1/63)	36.33	72.66	145.32	726.60	1,453.20	3.74	3.75
2½ to 3 years..... <sup>1</sup> (12/1/63)	37.01	74.02	148.04	740.20	1,480.40	3.75	3.75
3 to 3½ years..... <sup>1</sup> (6/1/64)	37.71	75.42	150.84	754.20	1,508.40	3.75	3.75
3½ to 4 years..... <sup>1</sup> (12/1/64)	38.41	76.82	153.64	768.20	1,536.40	3.75	3.75
4 to 4½ years..... <sup>1</sup> (6/1/65)	39.13	78.26	156.52	782.60	1,565.20	3.75	3.75
4½ to 5 years..... <sup>1</sup> (12/1/65)	39.87	79.74	159.48	797.40	1,591.80	3.75	3.75
5 to 5½ years..... <sup>1</sup> (6/1/66)	40.63	81.26	162.52	812.60	1,625.20	3.76	3.75
5½ to 6 years..... <sup>1</sup> (12/1/66)	41.41	82.82	165.64	828.20	1,656.40	3.76	3.75
6 to 6½ years..... <sup>1</sup> (6/1/67)	42.22	84.44	168.88	844.40	1,688.80	3.78	3.75
6½ to 7 years..... <sup>1</sup> (12/1/67)	43.06	86.12	172.24	861.20	1,722.40	3.79	3.75
7 to 7½ years..... <sup>1</sup> (6/1/68)	43.95	87.90	175.80	879.00	1,758.00	3.82	3.75
7½ to 8 years..... <sup>1</sup> (12/1/68)	44.86	89.72	179.44	897.20	1,794.40	3.84	3.75
8 to 8½ years..... <sup>1</sup> (6/1/69)	45.80	91.60	183.20	916.00	1,832.00	3.86	3.75
8½ to 9 years..... <sup>1</sup> (12/1/69)	46.80	93.60	187.20	936.00	1,872.00	3.89	3.75
9 to 9½ years..... <sup>1</sup> (6/1/70)	47.81	95.62	191.24	956.20	1,912.40	3.91	3.75
9½ to 10 years..... <sup>1</sup> (12/1/70)	48.88	97.76	195.52	977.60	1,955.20	3.94	3.75
<b>SECOND EXTENDED MATURITY</b> <b>VALUE (20 years from original</b> <b>maturity date)<sup>1</sup>.....(6/1/71)</b>	<b>50.13</b>	<b>100.26</b>	<b>200.52</b>	<b>1,002.60</b>	<b>2,005.20</b>	<b>4.00</b>	<b>5.11</b>

<sup>1</sup> Month, day, and year on which issues of June 1, 1941, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.31 percent.

TABLE 4

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1941, THROUGH APRIL 1, 1942

Issue price— Denomination—	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year..... <sup>1</sup> (12/1/61)	\$33.83	\$67.66	\$135.32	\$676.60	\$1,353.20	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/62)	34.46	68.92	137.84	689.20	1,378.40	3.72	<sup>2</sup> 3.75
1 to 1½ years.....(12/1/62)	35.11	70.22	140.44	702.20	1,404.40	3.75	<sup>2</sup> 3.75
1½ to 2 years.....(6/1/63)	35.77	71.54	143.08	715.40	1,430.80	3.75	<sup>2</sup> 3.75
2 to 2½ years.....(12/1/63)	36.44	72.88	145.76	728.80	1,457.60	3.75	<sup>2</sup> 3.75
2½ to 3 years.....(6/1/64)	37.12	74.24	148.48	742.40	1,484.80	3.75	<sup>2</sup> 3.75
3 to 3½ years.....(12/1/64)	37.82	75.64	151.28	756.40	1,512.80	3.75	<sup>2</sup> 3.75
3½ to 4 years.....(6/1/65)	38.53	77.06	154.12	770.60	1,541.20	3.75	<sup>2</sup> 3.75
4 to 4½ years.....(12/1/65)	39.25	78.50	157.00	785.00	1,570.00	3.75	<sup>3</sup> 4.15
4½ to 5 years.....(6/1/66)	40.00	80.00	160.00	800.00	1,600.00	3.76	<sup>3</sup> 4.18
5 to 5½ years.....(12/1/66)	40.77	81.54	163.08	815.40	1,630.80	3.77	<sup>3</sup> 4.21
5½ to 6 years.....(6/1/67)	41.56	83.12	166.24	831.20	1,662.40	3.78	<sup>3</sup> 4.25
6 to 6½ years.....(12/1/67)	42.39	84.78	169.56	847.80	1,695.60	3.79	<sup>3</sup> 4.28
6½ to 7 years.....(6/1/68)	43.25	86.50	173.00	865.00	1,730.00	3.82	<sup>3</sup> 4.42
7 to 7½ years.....(12/1/68)	44.14	88.28	176.56	882.80	1,765.60	3.84	<sup>3</sup> 4.47
7½ to 8 years.....(6/1/69)	45.07	90.14	180.28	901.40	1,802.80	3.86	<sup>3</sup> 4.52
8 to 8½ years.....(12/1/69)	46.03	92.06	184.12	920.60	1,841.20	3.89	<sup>3</sup> 4.59
8½ to 9 years.....(6/1/70)	47.02	94.04	188.08	940.40	1,880.80	3.91	<sup>3</sup> 4.68
9 to 9½ years.....(12/1/70)	48.05	96.10	192.20	961.00	1,922.00	3.94	<sup>3</sup> 4.83
9½ to 10 years.....(6/1/71)	49.12	98.24	196.48	982.40	1,964.80	3.96	<sup>3</sup> 5.21
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> .....(12/1/71)	50.40	100.80	201.60	1,008.00	2,016.00	<sup>3</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1941, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.32 percent.

TABLE 5

BONDS BEARING ISSUE DATE OF MAY 1, 1942

Issue price— Denomination—	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year..... <sup>1</sup> (5/1/62)	\$34.09	\$68.18	\$136.36	\$681.80	\$1,363.60	0.00	<sup>2</sup> 3.75
½ to 1 year.....(11/1/62)	34.73	69.46	138.92	694.60	1,389.20	3.75	<sup>2</sup> 3.75
1 to 1½ years.....(5/1/63)	35.38	70.76	141.52	707.60	1,415.20	3.75	<sup>2</sup> 3.75
1½ to 2 years.....(11/1/63)	36.04	72.08	144.16	720.80	1,441.60	3.74	<sup>2</sup> 3.75
2 to 2½ years.....(5/1/64)	36.72	73.44	146.88	734.40	1,468.80	3.75	<sup>2</sup> 3.75
2½ to 3 years.....(11/1/64)	37.41	74.82	149.64	748.20	1,496.40	3.75	<sup>2</sup> 3.75
3 to 3½ years.....(5/1/65)	38.11	76.22	152.44	762.20	1,524.40	3.75	<sup>2</sup> 3.75
3½ to 4 years.....(11/1/65)	38.82	77.64	155.28	776.40	1,552.80	3.75	<sup>2</sup> 3.75
4 to 4½ years.....(5/1/66)	39.55	79.10	158.20	791.00	1,582.00	3.75	<sup>3</sup> 4.15
4½ to 5 years.....(11/1/66)	40.30	80.60	161.20	806.00	1,612.00	3.75	<sup>3</sup> 4.18
5 to 5½ years.....(5/1/67)	41.08	82.16	164.32	821.60	1,643.20	3.77	<sup>3</sup> 4.22
5½ to 6 years.....(11/1/67)	41.88	83.76	167.52	837.60	1,675.20	3.78	<sup>3</sup> 4.25
6 to 6½ years.....(5/1/68)	42.71	85.42	170.84	854.20	1,708.40	3.79	<sup>3</sup> 4.29
6½ to 7 years.....(11/1/68)	43.58	87.16	174.32	871.60	1,743.20	3.81	<sup>3</sup> 4.42
7 to 7½ years.....(5/1/69)	44.49	88.98	177.96	889.80	1,779.60	3.84	<sup>3</sup> 4.46
7½ to 8 years.....(11/1/69)	45.41	90.82	181.64	908.20	1,816.40	3.86	<sup>3</sup> 4.53
8 to 8½ years.....(5/1/70)	46.38	92.76	185.52	927.60	1,855.20	3.89	<sup>3</sup> 4.59
8½ to 9 years.....(11/1/70)	47.38	94.76	189.52	947.60	1,895.20	3.91	<sup>3</sup> 4.69
9 to 9½ years.....(5/1/71)	48.42	96.84	193.68	968.40	1,936.80	3.94	<sup>3</sup> 4.84
9½ to 10 years.....(11/1/71)	49.50	99.00	198.00	990.00	1,980.00	3.96	<sup>3</sup> 5.21
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> .....(5/1/72)	50.79	101.58	203.16	1,015.80	2,031.60	<sup>3</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which issues of May 1, 1942, enter each period.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.35 percent.



TABLE 6

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1912

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield		
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity	
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent	
First ½ year.....	<sup>1</sup> (6/1/62)	\$34.17	\$68.34	\$136.68	\$683.40	\$1,366.80	0.00	<sup>2</sup> 3.75
½ to 1 year.....	(12/1/62)	31.81	69.62	139.24	696.20	1,392.40	3.75	<sup>2</sup> 3.75
1 to 1½ years.....	(6/1/63)	35.46	70.92	141.84	709.20	1,418.40	3.74	<sup>2</sup> 3.75
1½ to 2 years.....	(12/1/63)	36.13	72.26	144.52	722.60	1,445.20	3.75	<sup>2</sup> 3.75
2 to 2½ years.....	(6/1/64)	36.81	73.62	147.24	736.20	1,472.40	3.76	<sup>2</sup> 3.75
2½ to 3 years.....	(12/1/64)	37.50	75.00	150.00	750.00	1,500.00	3.75	<sup>2</sup> 3.75
3 to 3½ years.....	(6/1/65)	38.20	76.40	152.80	764.00	1,528.00	3.75	<sup>2</sup> 3.75
3½ to 4 years.....	(12/1/65)	38.92	77.84	155.68	778.40	1,556.80	3.75	<sup>3</sup> 4.15
4 to 4½ years.....	(6/1/66)	39.65	79.30	158.60	793.00	1,586.00	3.75	<sup>3</sup> 4.18
4½ to 5 years.....	(12/1/66)	40.41	80.82	161.64	808.20	1,616.40	3.76	<sup>3</sup> 4.21
5 to 5½ years.....	(6/1/67)	41.21	82.42	164.84	824.20	1,648.40	3.78	<sup>3</sup> 4.24
5½ to 6 years.....	(12/1/67)	42.02	84.04	168.08	840.40	1,680.80	3.80	<sup>3</sup> 4.27
6 to 6½ years.....	(6/1/68)	42.86	85.72	171.44	857.20	1,714.40	3.81	4.40
6½ to 7 years.....	(12/1/68)	43.74	87.48	174.96	874.80	1,749.60	3.83	4.45
7 to 7½ years.....	(6/1/69)	44.65	89.30	178.60	893.00	1,786.00	3.86	4.50
7½ to 8 years.....	(12/1/69)	45.59	91.18	182.36	911.80	1,823.60	3.88	4.55
8 to 8½ years.....	(6/1/70)	46.57	93.14	186.28	931.40	1,862.80	3.91	4.62
8½ to 9 years.....	(12/1/70)	47.58	95.16	190.32	951.60	1,903.20	3.93	4.71
9 to 9½ years.....	(6/1/71)	48.63	97.26	194.52	972.60	1,945.20	3.96	4.80
9½ to 10 years.....	(12/1/71)	49.71	99.42	198.84	994.20	1,988.40	3.99	5.27
SECOND EXTENDED MATURITY								
VALUE (20 years from original maturity date) <sup>4</sup> .....(6/1/72)	51.02	102.04	204.08	1,020.40	2,040.80	<sup>5</sup> 4.05	-----	

<sup>1</sup> Month, day, and year on which issues of June 1, 1942, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.36 percent.

TABLE 7

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1942, THROUGH MAY 1, 1943

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year..... <sup>1</sup> (12/1/62)	\$34.26	\$68.52	\$137.04	\$685.20	\$1,370.40	0.00	2 3.75
½ to 1 year.....(6/1/63)	34.90	69.80	139.60	698.00	1,396.00	3.74	2 3.75
1 to 1½ years.....(12/1/63)	35.56	71.12	142.24	711.20	1,422.40	3.76	2 3.75
1½ to 2 years.....(6/1/64)	36.22	72.44	144.88	724.40	1,448.80	3.74	2 3.75
2 to 2½ years.....(12/1/64)	36.90	73.80	147.60	738.00	1,476.00	3.75	2 3.75
2½ to 3 years.....(6/1/65)	37.59	75.18	150.36	751.80	1,503.60	3.75	2 3.75
3 to 3½ years.....(12/1/65)	38.30	76.60	153.20	766.00	1,532.00	3.75	2 4.15
3½ to 4 years.....(6/1/66)	39.03	78.06	156.12	780.60	1,561.20	3.76	2 4.18
4 to 4½ years.....(12/1/66)	39.77	79.54	159.08	795.40	1,590.80	3.76	2 4.21
4½ to 5 years.....(6/1/67)	40.54	81.08	162.16	810.80	1,621.60	3.78	2 4.24
5 to 5½ years.....(12/1/67)	41.34	82.68	165.36	826.80	1,653.60	3.79	3 4.27
5½ to 6 years.....(6/1/68)	42.18	84.36	168.72	843.60	1,687.20	3.82	4.40
6 to 6½ years.....(12/1/68)	43.04	86.08	172.16	860.80	1,721.60	3.84	4.44
6½ to 7 years.....(6/1/69)	43.93	87.86	175.72	878.60	1,757.20	3.86	4.48
7 to 7½ years.....(12/1/69)	44.85	89.70	179.40	897.00	1,794.00	3.89	4.53
7½ to 8 years.....(6/1/70)	45.79	91.58	183.16	915.80	1,831.60	3.91	4.60
8 to 8½ years.....(12/1/70)	46.78	93.56	187.12	935.60	1,871.20	3.93	4.67
8½ to 9 years.....(6/1/71)	47.79	95.58	191.16	955.80	1,911.60	3.95	4.78
9 to 9½ years.....(12/1/71)	48.84	97.68	195.36	976.80	1,953.60	3.98	4.97
9½ years to 10 years.....(6/1/72)	49.94	99.88	199.76	998.80	1,997.60	4.01	5.45
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>1</sup> .....(12/1/72)	51.30	102.60	205.20	1,026.00	2,052.00	5 4.08	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1942, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.38 percent.

TABLE 8

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1943

Issue price----- Denomination-----	\$18. 75 25. 00	\$37. 50 50. 00	\$75. 00 100. 00	\$375. 00 500. 00	\$750. 00 1, 000. 00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year----- <sup>1</sup> (6/1/63)	\$34. 34	\$68. 68	\$137. 36	\$686. 80	\$1, 373. 60	0. 00	<sup>2</sup> 3. 75
½ to 1 year----- (6/1/63)	34. 98	69. 96	139. 92	699. 60	1, 399. 20	3. 73	<sup>2</sup> 3. 75
1 to 1½ years----- (6/1/64)	35. 64	71. 28	142. 56	712. 80	1, 425. 60	3. 75	<sup>2</sup> 3. 75
1½ to 2 years----- (6/1/64)	36. 31	72. 62	145. 24	726. 20	1, 452. 40	3. 75	<sup>2</sup> 3. 75
2 to 2½ years----- (6/1/65)	36. 99	73. 98	147. 96	739. 80	1, 479. 60	3. 75	<sup>2</sup> 3. 75
2½ to 3 years----- (12/1/65)	37. 68	75. 36	150. 72	753. 60	1, 507. 20	3. 75	<sup>2</sup> 4. 15
3 to 3½ years----- (6/1/66)	38. 40	76. 80	153. 60	768. 00	1, 536. 00	3. 76	<sup>2</sup> 4. 18
3½ to 4 years----- (12/1/66)	39. 13	78. 26	156. 52	782. 60	1, 565. 20	3. 77	<sup>2</sup> 4. 20
4 to 4½ years----- (6/1/67)	39. 89	79. 78	159. 56	797. 80	1, 595. 60	3. 78	<sup>2</sup> 4. 23
4½ to 5 years----- (12/1/67)	40. 68	81. 36	162. 72	813. 60	1, 627. 20	3. 80	<sup>2</sup> 4. 25
5 to 5½ years----- (6/1/68)	41. 49	82. 98	165. 96	829. 80	1, 659. 60	3. 82	<sup>2</sup> 4. 39
5½ to 6 years----- (12/1/68)	42. 33	84. 66	169. 32	846. 60	1, 693. 20	3. 84	<sup>2</sup> 4. 42
6 to 6½ years----- (6/1/69)	43. 20	86. 40	172. 80	864. 00	1, 728. 00	3. 86	<sup>2</sup> 4. 46
6½ to 7 years----- (12/1/69)	44. 09	88. 18	176. 36	881. 80	1, 763. 60	3. 88	<sup>2</sup> 4. 51
7 to 7½ years----- (6/1/70)	45. 02	90. 04	180. 08	900. 40	1, 800. 80	3. 91	<sup>2</sup> 4. 56
7½ to 8 years----- (12/1/70)	45. 97	91. 94	183. 88	919. 40	1, 838. 80	3. 93	<sup>2</sup> 4. 63
8 to 8½ years----- (6/1/71)	46. 98	93. 96	187. 92	939. 60	1, 879. 20	3. 96	<sup>2</sup> 4. 69
8½ to 9 years----- (12/1/71)	47. 99	95. 98	191. 96	959. 80	1, 919. 60	3. 98	<sup>2</sup> 4. 81
9 to 9½ years----- (6/1/72)	49. 06	98. 12	196. 24	981. 20	1, 962. 40	4. 00	<sup>2</sup> 4. 99
9½ to 10 years----- (12/1/72)	50. 15	100. 30	200. 60	1, 003. 00	2, 006. 00	4. 03	<sup>2</sup> 5. 54
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> ----- (6/1/73)	51. 54	103. 08	206. 16	1, 030. 80	2, 061. 60	<sup>3</sup> 4. 10	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1943, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1965, revision.<sup>4</sup> 40 years from issue date. Second extended maturity value improved by the revision of June 1, 1965.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.40 percent.

TABLE 9

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1943, THROUGH MAY 1, 1944

Issue price----- Denomination-----	\$18. 75 25. 00	\$37. 50 50. 00	\$75. 00 100. 00	\$375. 00 500. 00	\$750. 00 1, 000. 00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) On the re- demption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current re- demption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD					Percent	Percent
First ½ year----- <sup>1</sup> (12/1/63)	\$34. 43	\$68. 86	\$137. 72	\$688. 60	\$1, 377. 20	0. 00	<sup>2</sup> 3. 75
½ to 1 year----- (6/1/64)	35. 08	70. 16	140. 32	701. 60	1, 403. 20	3. 78	<sup>2</sup> 3. 75
1 to 1½ years----- (12/1/64)	35. 73	71. 46	142. 92	714. 60	1, 429. 20	3. 74	<sup>2</sup> 3. 75
1½ to 2 years----- (6/1/65)	36. 40	72. 80	145. 60	728. 00	1, 456. 00	3. 74	<sup>2</sup> 3. 75
2 to 2½ years----- (12/1/65)	37. 09	74. 18	148. 36	741. 80	1, 483. 60	3. 76	<sup>2</sup> 4. 15
2½ to 3 years----- (6/1/66)	37. 79	75. 58	151. 16	755. 80	1, 511. 60	3. 76	<sup>2</sup> 4. 17
3 to 3½ years----- (12/1/66)	38. 51	77. 02	154. 04	770. 20	1, 540. 40	3. 77	<sup>2</sup> 4. 20
3½ to 4 years----- (6/1/67)	39. 25	78. 50	157. 00	785. 00	1, 570. 00	3. 78	<sup>2</sup> 4. 23
4 to 4½ years----- (12/1/67)	40. 03	80. 06	160. 12	800. 60	1, 601. 20	3. 80	<sup>2</sup> 4. 25
4½ to 5 years----- (6/1/68)	40. 83	81. 66	163. 32	816. 60	1, 633. 20	3. 82	<sup>2</sup> 4. 37
5 to 5½ years----- (12/1/68)	41. 65	83. 30	166. 60	833. 00	1, 666. 00	3. 84	<sup>2</sup> 4. 41
5½ to 6 years----- (6/1/69)	42. 50	85. 00	170. 00	850. 00	1, 700. 00	3. 87	<sup>2</sup> 4. 44
6 to 6½ years----- (12/1/69)	43. 37	86. 74	173. 48	867. 40	1, 734. 80	3. 88	<sup>2</sup> 4. 49
6½ to 7 years----- (6/1/70)	44. 27	88. 54	177. 08	885. 40	1, 770. 80	3. 90	<sup>2</sup> 4. 53
7 to 7½ years----- (12/1/70)	45. 22	90. 44	180. 88	904. 40	1, 808. 80	3. 93	<sup>2</sup> 4. 57
7½ to 8 years----- (6/1/71)	46. 18	92. 36	184. 72	923. 60	1, 847. 20	3. 95	<sup>2</sup> 4. 64
8 to 8½ years----- (12/1/71)	47. 18	94. 36	188. 72	943. 60	1, 887. 20	3. 98	<sup>2</sup> 4. 72
8½ to 9 years----- (6/1/72)	48. 22	96. 44	192. 88	964. 40	1, 928. 80	4. 00	<sup>2</sup> 4. 82
9 to 9½ years----- (12/1/72)	49. 28	98. 56	197. 12	985. 60	1, 971. 20	4. 02	<sup>2</sup> 5. 03
9½ to 10 years----- (6/1/73)	50. 38	100. 76	201. 52	1, 007. 60	2, 015. 20	4. 05	<sup>2</sup> 5. 60
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> ----- (12/1/73)	51. 79	103. 58	207. 16	1, 035. 80	2, 071. 60	<sup>3</sup> 4. 12	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1943, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1965, revision.<sup>4</sup> 40 years from issue date. Second extended maturity value improved by the revision of June 1, 1965.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.42 percent.

TABLE 10

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1944

Issue price..... Denomination.....	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the redemption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD						Percent	Percent
First ½ year..... <sup>1</sup> (6/1/64)	\$13.80	\$31.51	\$69.02	\$138.04	\$690.20	\$1,380.40	0.00	<sup>2</sup> 3.75
½ to 1 year.....(12/1/64)	14.06	35.16	70.32	140.64	703.20	1,406.40	3.77	<sup>2</sup> 3.75
1 to 1½ years.....(6/1/65)	14.33	35.82	71.64	143.28	716.40	1,432.80	3.76	<sup>2</sup> 3.75
1½ to 2 years.....(12/1/65)	14.60	36.49	72.98	145.96	729.80	1,459.60	3.75	<sup>2</sup> 4.15
2 to 2½ years.....(6/1/66)	14.87	37.18	74.36	148.72	743.60	1,487.20	3.76	<sup>2</sup> 4.17
2½ to 3 years.....(12/1/66)	15.16	37.89	75.78	151.56	757.80	1,515.60	3.77	<sup>2</sup> 4.20
3 to 3½ years.....(6/1/67)	15.45	38.62	77.24	154.48	772.40	1,544.80	3.79	<sup>2</sup> 4.22
3½ to 4 years.....(12/1/67)	15.75	39.37	78.74	157.48	787.40	1,574.80	3.80	<sup>2</sup> 4.25
4 to 4½ years.....(6/1/68)	16.06	40.16	80.32	160.64	803.20	1,606.40	3.83	<sup>2</sup> 4.37
4½ to 5 years.....(12/1/68)	16.38	40.96	81.92	163.84	819.20	1,638.40	3.84	<sup>2</sup> 4.40
5 to 5½ years.....(6/1/69)	16.72	41.79	83.58	167.16	835.80	1,671.60	3.87	<sup>2</sup> 4.44
5½ to 6 years.....(12/1/69)	17.06	42.65	85.30	170.60	853.00	1,706.00	3.89	<sup>2</sup> 4.48
6 to 6½ years.....(6/1/70)	17.42	43.54	87.08	174.16	870.80	1,741.60	3.91	<sup>2</sup> 4.51
6½ to 7 years.....(12/1/70)	17.78	44.46	88.92	177.84	889.20	1,778.40	3.94	<sup>2</sup> 4.55
7 to 7½ years.....(6/1/71)	18.16	45.40	90.80	181.60	908.00	1,816.00	3.96	<sup>2</sup> 4.61
7½ to 8 years.....(12/1/71)	18.55	46.37	92.74	185.48	927.40	1,854.80	3.98	<sup>2</sup> 4.68
8 to 8½ years.....(6/1/72)	18.95	47.37	94.74	189.48	947.40	1,894.80	4.00	<sup>2</sup> 4.77
8½ to 9 years.....(12/1/72)	19.37	48.42	96.84	193.68	968.40	1,936.80	4.02	<sup>2</sup> 4.88
9 to 9½ years.....(6/1/73)	19.80	49.49	98.98	197.96	989.80	1,979.60	4.05	<sup>2</sup> 5.11
9½ to 10 years.....(12/1/73)	20.24	50.60	101.20	202.40	1,012.00	2,024.00	4.07	<sup>2</sup> 5.73
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> . (6/1/74)	20.82	52.05	104.10	208.20	1,041.00	2,082.00	<sup>5</sup> 4.15	-----

- <sup>1</sup> Month, day, and year on which issues of June 1, 1944, enter each period. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.  
<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.  
<sup>4</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.  
<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.43 percent.

TABLE 11

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1944, THROUGH MAY 1, 1945

Issue price..... Denomination.....	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the redemption value at start of the second extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD						Percent	Percent
First ½ year..... <sup>1</sup> (12/1/64)	\$13.84	\$34.59	\$69.18	\$138.36	\$691.80	\$1,383.60	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/65)	14.10	35.24	70.48	140.96	704.80	1,409.60	3.76	<sup>2</sup> 3.75
1 to 1½ years.....(12/1/65)	14.36	35.90	71.80	143.60	718.00	1,436.00	3.75	<sup>2</sup> 4.15
1½ to 2 years.....(6/1/66)	14.63	36.58	73.16	146.32	731.60	1,463.20	3.76	<sup>2</sup> 4.17
2 to 2½ years.....(12/1/66)	14.91	37.28	74.56	149.12	745.60	1,491.20	3.78	<sup>2</sup> 4.19
2½ to 3 years.....(6/1/67)	15.20	38.00	76.00	152.00	760.00	1,520.00	3.80	<sup>2</sup> 4.21
3 to 3½ years.....(12/1/67)	15.50	38.74	77.48	154.96	774.80	1,549.60	3.81	<sup>2</sup> 4.24
3½ to 4 years.....(6/1/68)	15.80	39.50	79.00	158.00	790.00	1,580.00	3.83	<sup>2</sup> 4.36
4 to 4½ years.....(12/1/68)	16.12	40.29	80.58	161.16	805.80	1,611.60	3.85	<sup>2</sup> 4.39
4½ to 5 years.....(6/1/69)	16.44	41.10	82.20	164.40	822.00	1,644.00	3.87	<sup>2</sup> 4.43
5 to 5½ years.....(12/1/69)	16.78	41.95	83.90	167.80	839.00	1,678.00	3.90	<sup>2</sup> 4.46
5½ to 6 years.....(6/1/70)	17.12	42.81	85.62	171.24	856.20	1,712.40	3.91	<sup>2</sup> 4.49
6 to 6½ years.....(12/1/70)	17.48	43.71	87.42	174.84	874.20	1,748.40	3.94	<sup>2</sup> 4.53
6½ to 7 years.....(6/1/71)	17.85	44.63	89.26	178.52	892.60	1,785.20	3.96	<sup>2</sup> 4.58
7 to 7½ years.....(12/1/71)	18.23	45.58	91.16	182.32	911.60	1,823.20	3.98	<sup>2</sup> 4.63
7½ to 8 years.....(6/1/72)	18.63	46.57	93.14	186.28	931.40	1,862.80	4.00	<sup>2</sup> 4.69
8 to 8½ years.....(12/1/72)	19.03	47.57	95.14	190.28	951.40	1,902.80	4.02	<sup>2</sup> 4.79
8½ to 9 years.....(6/1/73)	19.45	48.63	97.26	194.52	972.60	1,945.20	4.05	<sup>2</sup> 4.90
9 to 9½ years.....(12/1/73)	19.88	49.69	99.38	198.76	993.80	1,987.60	4.07	<sup>2</sup> 5.17
9½ to 10 years.....(6/1/74)	20.32	50.81	101.62	203.24	1,016.20	2,032.40	4.09	<sup>2</sup> 5.83
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>4</sup> ..(12/1/74)	20.92	52.29	104.58	209.16	1,045.80	2,091.60	<sup>5</sup> 4.18	-----

- <sup>1</sup> Month, day, and year on which issues of December 1, 1944, enter each period. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.  
<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.  
<sup>4</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.  
<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.45 percent.

TABLE 12

BONDS BEARING ISSUES DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1945

Issue price Denomination.....	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended ma- turity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/65)	\$13.87	\$34.68	\$69.36	\$138.72	\$277.44	\$693.60	\$1,387.20	0.00	<sup>2</sup> 3.75
½ to 1 year.....(12/1/65)	14.13	35.33	70.66	141.32	282.64	706.60	1,413.20	3.75	<sup>3</sup> 4.15
1 to 1½ years.....(6/1/66)	14.40	36.00	72.00	144.00	288.00	720.00	1,440.00	3.77	<sup>3</sup> 4.17
1½ to 2 years.....(12/1/66)	14.68	36.69	73.38	146.76	293.52	733.80	1,467.60	3.79	<sup>3</sup> 4.19
2 to 2½ years.....(6/1/67)	14.96	37.40	74.80	149.60	299.20	748.00	1,496.00	3.81	<sup>3</sup> 4.21
2½ to 3 years.....(12/1/67)	15.25	38.12	76.24	152.48	304.96	762.40	1,524.80	3.82	<sup>3</sup> 4.23
3 to 3½ years.....(6/1/68)	15.55	38.87	77.74	155.48	310.96	777.40	1,554.80	3.84	4.35
3½ to 4 years.....(12/1/68)	15.86	39.65	79.30	158.60	317.20	793.00	1,586.00	3.86	4.38
4 to 4½ years.....(6/1/69)	16.18	40.45	80.90	161.80	323.60	809.00	1,618.00	3.88	4.41
4½ to 5 years.....(12/1/69)	16.51	41.27	82.54	165.08	330.16	825.40	1,650.80	3.90	4.44
5 to 5½ years.....(6/1/70)	16.85	42.12	84.24	168.48	336.96	842.40	1,684.80	3.93	4.47
5½ to 6 years.....(12/1/70)	17.20	42.99	85.98	171.96	343.92	859.80	1,719.60	3.94	4.51
6 to 6½ years.....(6/1/71)	17.56	43.89	87.78	175.56	351.12	877.80	1,755.60	3.96	4.55
6½ to 7 years.....(12/1/71)	17.93	44.82	89.64	179.28	358.56	896.40	1,792.80	3.99	4.60
7 to 7½ years.....(6/1/72)	18.31	45.78	91.56	183.12	366.24	915.60	1,831.20	4.01	4.65
7½ to 8 years.....(12/1/72)	18.71	46.77	93.54	187.08	374.16	935.40	1,870.80	4.03	4.72
8 to 8½ years.....(6/1/73)	19.12	47.79	95.58	191.16	382.32	955.80	1,911.60	4.05	4.80
8½ to 9 years.....(12/1/73)	19.54	48.84	97.68	195.36	390.72	976.80	1,953.60	4.07	4.94
9 to 9½ years.....(6/1/74)	19.97	49.92	99.84	199.68	399.36	998.40	1,996.80	4.09	5.20
9½ to 10 years.....(12/1/74)	20.42	51.04	102.08	204.16	408.32	1,020.80	2,041.60	4.11	5.92
SECOND EXTENDED MATURITY VALUE (20 years from original ma- turity date) <sup>4</sup> .....(6/1/75)	21.02	52.55	105.10	210.20	420.40	1,051.00	2,102.00	<sup>5</sup> 4.20	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1945, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to second extended maturity date is 3.46 percent.

TABLE 13

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1945, THROUGH MAY 1, 1946

Issue price Denomination.....	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended ma- turity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (12/1/65)	\$13.91	\$34.77	\$69.54	\$139.08	\$278.16	\$695.40	\$1,390.80	0.00	<sup>2</sup> 4.15
½ to 1 year.....(6/1/66)	14.20	35.49	70.98	141.96	283.92	709.80	1,419.60	4.14	<sup>2</sup> 4.15
1 to 1½ years.....(12/1/66)	14.49	36.23	72.46	144.92	289.84	724.60	1,449.20	4.16	<sup>2</sup> 4.15
1½ to 2 years.....(6/1/67)	14.79	36.98	73.96	147.92	295.84	739.60	1,479.20	4.15	<sup>2</sup> 4.15
2 to 2½ years.....(12/1/67)	15.10	37.75	75.50	151.00	302.00	755.00	1,510.00	4.15	<sup>2</sup> 4.15
2½ to 3 years.....(6/1/68)	15.41	38.53	77.06	154.12	308.24	770.60	1,541.20	4.15	4.25
3 to 3½ years.....(12/1/68)	15.73	39.33	78.66	157.32	314.64	786.60	1,573.20	4.15	4.26
3½ to 4 years.....(6/1/69)	16.06	40.15	80.30	160.60	321.20	803.00	1,606.00	4.15	4.26
4 to 4½ years.....(12/1/69)	16.39	40.98	81.96	163.92	327.84	819.60	1,639.20	4.15	4.28
4½ to 5 years.....(6/1/70)	16.73	41.83	83.66	167.32	334.64	836.60	1,673.20	4.15	4.29
5 to 5½ years.....(12/1/70)	17.08	42.70	85.40	170.80	341.60	854.00	1,708.00	4.15	4.30
5½ to 6 years.....(6/1/71)	17.43	43.58	87.16	174.32	348.64	871.60	1,743.20	4.15	4.32
6 to 6½ years.....(12/1/71)	17.80	44.49	88.98	177.96	355.92	889.80	1,779.60	4.15	4.34
6½ to 7 years.....(6/1/72)	18.16	45.41	90.82	181.64	363.28	908.20	1,816.40	4.15	4.37
7 to 7½ years.....(12/1/72)	18.54	46.35	92.70	185.40	370.80	927.00	1,854.00	4.15	4.40
7½ to 8 years.....(6/1/73)	18.92	47.31	94.62	189.24	378.18	946.20	1,892.40	4.15	4.46
8 to 8½ years.....(12/1/73)	19.32	48.30	96.60	193.20	386.40	966.00	1,932.00	4.15	4.52
8½ to 9 years.....(6/1/74)	19.72	49.30	98.60	197.20	394.40	986.00	1,972.00	4.15	4.65
9 to 9½ years.....(12/1/74)	20.13	50.32	100.64	201.28	402.56	1,006.40	2,012.80	4.15	4.91
9½ to 10 years.....(6/1/75)	20.55	51.37	102.74	205.48	410.96	1,027.40	2,054.80	4.15	5.65
SECOND EXTENDED MATURITY VALUE (20 years from original ma- turity date) <sup>3</sup> .....(12/1/75)	21.13	52.82	105.64	211.28	422.56	1,056.40	2,112.80	<sup>4</sup> 4.23	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1945, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to second extended maturity date is 3.48 percent.



TABLE 14

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1946

Issue price----- Denomination-----	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended ma- turity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/66)	\$13.97	\$34.92	\$69.84	\$139.68	\$279.36	\$698.40	\$1,396.80	0.00	2 4.15
½ to 1 year.....(12/1/66)	14.26	35.64	71.28	142.56	285.12	712.80	1,425.60	4.12	2 4.15
1 to 1½ years.....(6/1/67)	14.55	36.38	72.76	145.52	291.04	727.60	1,455.20	4.14	2 4.15
1½ to 2 years.....(12/1/67)	14.86	37.14	74.28	148.56	297.12	742.80	1,485.60	4.15	2 4.15
2 to 2½ years.....(6/1/68)	15.16	37.91	75.82	151.64	303.28	758.20	1,516.40	4.15	4.25
2½ to 3 years.....(12/1/68)	15.48	38.70	77.40	154.80	309.60	774.00	1,548.00	4.15	4.26
3 to 3½ years.....(6/1/69)	15.80	39.50	79.00	158.00	316.00	790.00	1,580.00	4.15	4.27
3½ to 4 years.....(12/1/69)	16.13	40.32	80.64	161.28	322.56	806.40	1,612.80	4.15	4.28
4 to 4½ years.....(6/1/70)	16.46	41.16	82.32	164.64	329.28	823.20	1,646.40	4.15	4.28
4½ to 5 years.....(12/1/70)	16.80	42.01	84.02	168.04	336.08	840.20	1,680.40	4.15	4.30
5 to 5½ years.....(6/1/71)	17.15	42.88	85.76	171.52	343.04	857.60	1,715.20	4.15	4.31
5½ to 6 years.....(12/1/71)	17.51	43.77	87.54	175.08	350.16	875.40	1,750.80	4.15	4.33
6 to 6½ years.....(6/1/72)	17.87	44.68	89.36	178.72	357.44	893.60	1,787.20	4.15	4.35
6½ to 7 years.....(12/1/72)	18.24	45.61	91.22	182.44	364.88	912.20	1,824.40	4.15	4.38
7 to 7½ years.....(6/1/73)	18.62	46.55	93.10	186.20	372.40	931.00	1,862.00	4.15	4.42
7½ to 8 years.....(12/1/73)	19.01	47.52	95.04	190.08	380.16	950.40	1,900.80	4.15	4.48
8 to 8½ years.....(6/1/74)	19.40	48.50	97.00	194.00	388.00	970.00	1,940.00	4.15	4.56
8½ to 9 years.....(12/1/74)	19.80	49.51	99.02	198.04	396.08	990.20	1,980.40	4.15	4.70
9 to 9½ years.....(6/1/75)	20.22	50.54	101.08	202.16	404.32	1,010.80	2,021.60	4.15	4.96
9½ to 10 years.....(12/1/75)	20.64	51.59	103.18	206.36	412.72	1,031.80	2,063.60	4.15	5.78
SECOND EXTENDED MATURITY VALUE (20 years from original ma- turity date) <sup>3</sup> .....(6/1/76)	21.23	53.08	106.16	212.32	424.64	1,061.60	2,123.20	4.23	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1946, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to second extended maturity date is 3.50 percent.

TABLE 15

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1946, THROUGH MAY 1, 1947

Issue price----- Denomination-----	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended ma- turity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (12/1/66)	\$14.03	\$35.08	\$70.16	\$140.32	\$280.64	\$701.60	\$1,403.20	0.00	2 4.15
½ to 1 year.....(6/1/67)	14.32	35.81	71.62	143.24	286.48	716.20	1,432.40	4.16	2 4.15
1 to 1½ years.....(12/1/67)	14.62	36.55	73.10	146.20	292.40	731.00	1,462.00	4.15	2 4.15
1½ to 2 years.....(6/1/68)	14.92	37.31	74.62	149.24	298.48	746.20	1,492.40	4.15	4.25
2 to 2½ years.....(12/1/68)	15.23	38.08	76.16	152.32	304.64	761.60	1,523.20	4.15	4.26
2½ to 3 years.....(6/1/69)	15.55	38.87	77.74	155.48	310.96	777.40	1,554.80	4.15	4.27
3 to 3½ years.....(12/1/69)	15.87	39.68	79.36	158.72	317.44	793.60	1,587.20	4.15	4.27
3½ to 4 years.....(6/1/70)	16.20	40.50	81.00	162.00	324.00	810.00	1,620.00	4.15	4.28
4 to 4½ years.....(12/1/70)	16.54	41.34	82.68	165.36	330.72	826.80	1,653.60	4.15	4.30
4½ to 5 years.....(6/1/71)	16.88	42.20	84.40	168.80	337.60	844.00	1,688.00	4.15	4.31
5 to 5½ years.....(12/1/71)	17.23	43.08	86.16	172.32	344.64	861.60	1,723.20	4.15	4.32
5½ to 6 years.....(6/1/72)	17.59	43.97	87.94	175.88	351.76	879.40	1,758.80	4.15	4.34
6 to 6½ years.....(12/1/72)	17.95	44.88	89.76	179.52	359.04	897.60	1,795.20	4.15	4.37
6½ to 7 years.....(6/1/73)	18.33	45.82	91.64	183.28	366.56	916.40	1,832.80	4.15	4.39
7 to 7½ years.....(12/1/73)	18.71	46.77	93.54	187.08	374.16	935.40	1,870.80	4.15	4.44
7½ to 8 years.....(6/1/74)	19.10	47.74	95.48	190.96	381.92	954.80	1,909.60	4.15	4.49
8 to 8½ years.....(12/1/74)	19.49	48.73	97.46	194.92	389.84	974.60	1,949.20	4.15	4.58
8½ to 9 years.....(6/1/75)	19.90	49.74	99.48	198.96	397.92	994.80	1,989.60	4.15	4.73
9 to 9½ years.....(12/1/75)	20.31	50.77	101.54	203.08	406.16	1,015.40	2,030.80	4.15	5.02
9½ to 10 years.....(6/1/76)	20.73	51.82	103.64	207.28	414.56	1,036.40	2,072.80	4.15	5.91
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>3</sup> .....(12/1/76)	21.31	53.35	106.70	213.40	426.80	1,067.00	2,134.00	4.24	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1946, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to second extended maturity date is 3.52 percent.

TABLE 16

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1947

Issue price ----- Denomination -----	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended mat- urity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
Period after first extended maturity (beginning 20 years after issue date)	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year ----- <sup>1</sup> (6/1/67)	\$14.09	\$35.23	\$70.46	\$140.92	\$281.84	\$704.60	\$1,409.20	0.00	<sup>2</sup> 4.15
½ to 1 year ----- (12/1/67)	14.38	35.96	71.92	143.84	287.68	719.20	1,438.40	4.14	<sup>2</sup> 4.15
1 to 1½ years ----- (6/1/68)	14.68	36.71	73.42	146.84	293.68	734.20	1,468.40	4.16	4.25
1½ to 2 years ----- (12/1/68)	14.99	37.47	74.94	149.88	299.76	749.40	1,498.80	4.15	4.26
2 to 2½ years ----- (6/1/69)	15.30	38.25	76.50	153.00	306.00	765.00	1,530.00	4.15	4.26
2½ to 3 years ----- (12/1/69)	15.62	39.04	78.08	156.16	312.32	780.80	1,561.60	4.15	4.27
3 to 3½ years ----- (6/1/70)	15.94	39.85	79.70	159.40	318.80	797.00	1,594.00	4.15	4.28
3½ to 4 years ----- (12/1/70)	16.27	40.68	81.36	162.72	325.44	813.60	1,627.20	4.15	4.29
4 to 4½ years ----- (6/1/71)	16.61	41.52	83.04	166.08	332.16	830.40	1,660.80	4.15	4.31
4½ to 5 years ----- (12/1/71)	16.95	42.38	84.76	169.52	339.04	847.60	1,695.20	4.15	4.32
5 to 5½ years ----- (6/1/72)	17.30	43.26	86.52	173.04	346.08	865.20	1,730.40	4.15	4.34
5½ to 6 years ----- (12/1/72)	17.66	44.16	88.32	176.64	353.28	883.20	1,766.40	4.15	4.36
6 to 6½ years ----- (6/1/73)	18.03	45.08	90.16	180.32	360.64	901.60	1,803.20	4.15	4.38
6½ to 7 years ----- (12/1/73)	18.40	46.01	92.02	184.04	368.08	920.20	1,840.40	4.15	4.42
7 to 7½ years ----- (6/1/74)	18.79	46.97	93.94	187.88	375.76	939.40	1,878.80	4.15	4.46
7½ to 8 years ----- (12/1/74)	19.18	47.94	95.88	191.76	383.52	958.80	1,917.60	4.15	4.52
8 to 8½ years ----- (6/1/75)	19.58	48.94	97.88	195.76	391.52	978.80	1,957.60	4.15	4.61
8½ to 9 years ----- (12/1/75)	19.98	49.95	99.90	199.80	399.60	999.00	1,998.00	4.15	4.77
9 to 9½ years ----- (6/1/76)	20.40	50.99	101.98	203.96	407.92	1,019.80	2,039.60	4.15	5.07
9½ to 10 years ----- (12/1/76)	20.82	52.05	104.10	208.20	416.40	1,041.00	2,082.00	4.15	5.99
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>3</sup> (6/1/77)	21.44	53.61	107.22	214.44	428.88	1,072.20	2,144.40	<sup>4</sup> 4.24	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1947, enter each period. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.  
<sup>3</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.  
<sup>4</sup> Yield on purchase price from issue date to second extended maturity date is 3.53 percent.

TABLE 17

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1947, THROUGH MAY 1, 1948

Issue price ----- Denomination -----	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the second extended mat- urity period to the begin- ning of each half-year period there- after	(3) On cur- rent redemp- tion value from begin- ning of each half-year period to sec- ond extended maturity
Period after first extended maturity (beginning 20 years after issue date)	SECOND EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year ----- <sup>1</sup> (12/1/67)	\$14.16	\$35.39	\$70.78	\$141.56	\$283.12	\$707.80	\$1,415.60	0.00	<sup>2</sup> 4.15
½ to 1 year ----- (6/1/68)	14.45	36.12	72.24	144.48	288.96	722.40	1,444.80	4.13	4.25
1 to 1½ years ----- (12/1/68)	14.75	36.87	73.74	147.48	294.96	737.40	1,474.80	4.14	4.26
1½ to 2 years ----- (6/1/69)	15.06	37.64	75.28	150.56	301.12	752.80	1,505.60	4.15	4.27
2 to 2½ years ----- (12/1/69)	15.37	38.42	76.81	153.68	307.36	768.40	1,536.80	4.15	4.28
2½ to 3 years ----- (6/1/70)	15.69	39.22	78.44	156.88	313.76	784.40	1,568.80	4.15	4.29
3 to 3½ years ----- (12/1/70)	16.01	40.03	80.06	160.12	320.24	800.60	1,601.20	4.15	4.30
3½ to 4 years ----- (6/1/71)	16.34	40.86	81.72	163.44	326.88	817.20	1,634.40	4.15	4.31
4 to 4½ years ----- (12/1/71)	16.68	41.71	83.42	166.84	333.68	834.20	1,668.40	4.15	4.32
4½ to 5 years ----- (6/1/72)	17.03	42.58	85.16	170.32	340.64	851.60	1,703.20	4.15	4.34
5 to 5½ years ----- (12/1/72)	17.38	43.46	86.92	173.84	347.68	869.20	1,738.40	4.15	4.36
5½ to 6 years ----- (6/1/73)	17.74	44.36	88.72	177.44	354.88	887.20	1,774.40	4.15	4.39
6 to 6½ years ----- (12/1/73)	18.11	45.28	90.56	181.12	362.24	905.60	1,811.20	4.15	4.42
6½ to 7 years ----- (6/1/74)	18.49	46.22	92.44	184.88	369.76	924.40	1,848.80	4.15	4.47
7 to 7½ years ----- (12/1/74)	18.87	47.18	94.36	188.72	377.44	943.60	1,887.20	4.15	4.53
7½ to 8 years ----- (6/1/75)	19.26	48.16	96.32	192.64	385.28	963.20	1,926.40	4.15	4.61
8 to 8½ years ----- (12/1/75)	19.66	49.16	98.32	196.64	393.28	983.20	1,966.40	4.15	4.79
8½ to 9 years ----- (6/1/76)	20.07	50.18	100.36	200.72	401.44	1,003.60	2,007.20	4.15	5.11
9 to 9½ years ----- (12/1/76)	20.49	51.22	102.44	204.88	409.76	1,024.40	2,048.80	4.15	6.08
9½ to 10 years ----- (6/1/77)	20.91	52.28	104.56	209.12	418.24	1,045.60	2,091.20	4.15	-----
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>3</sup> (12/1/77)	21.55	53.87	107.74	215.48	430.96	1,077.40	2,154.80	<sup>4</sup> 4.25	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1947, enter each period. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield from beginning of each half-year period to second extended maturity at second extended maturity value prior to the June 1, 1968, revision.  
<sup>3</sup> 20 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.  
<sup>4</sup> Yield on purchase price from issue date to second extended maturity date is 3.53 percent.

TABLE 18

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1968

Issue price.....	\$7.50	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	Approximate investment yield	
Denomination.....	10.00	25.00	50.00	100.00	200.00	500.00	1,000.00		
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to first extended maturity
	FIRST EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (6/1/58)	\$10.00	\$25.00	\$50.00	\$100.00	\$200.00	\$500.00	\$1,000.00	0.00	<sup>2</sup> 3.00
½ to 1 year..... (12/1/58)	10.15	25.37	50.75	101.50	203.00	507.50	1,015.00	3.00	<sup>2</sup> 3.00
1 to 1½ years..... (6/1/59)	10.30	25.75	51.50	103.00	206.00	515.00	1,030.00	2.98	<sup>2</sup> 3.30
1½ to 2 years..... (12/1/59)	10.46	26.14	52.28	104.56	209.12	522.80	1,045.60	2.99	<sup>2</sup> 3.53
2 to 2½ years..... (6/1/60)	10.61	26.52	53.04	106.08	212.16	530.40	1,060.80	2.97	<sup>2</sup> 3.57
2½ to 3 years..... (12/1/60)	10.77	26.93	53.86	107.72	215.44	538.60	1,077.20	3.00	<sup>2</sup> 3.60
3 to 3½ years..... (6/1/61)	10.94	27.36	54.72	109.44	218.88	547.20	1,094.40	3.03	<sup>2</sup> 3.63
3½ to 4 years..... (12/1/61)	11.12	27.80	55.60	111.20	222.40	556.00	1,112.00	3.06	<sup>2</sup> 3.66
4 to 4½ years..... (6/1/62)	11.30	28.24	56.48	112.96	225.92	564.80	1,129.60	3.07	<sup>2</sup> 3.70
4½ to 5 years..... (12/1/62)	11.48	28.69	57.38	114.76	229.52	573.80	1,147.60	3.08	<sup>2</sup> 3.75
5 to 5½ years..... (6/1/63)	11.68	29.21	58.42	116.84	233.68	584.20	1,168.40	3.14	<sup>2</sup> 3.76
5½ to 6 years..... (12/1/63)	11.89	29.73	59.46	118.92	237.84	594.60	1,189.20	3.18	<sup>2</sup> 3.79
6 to 6½ years..... (6/1/64)	12.10	30.26	60.52	121.04	242.08	605.20	1,210.40	3.21	<sup>2</sup> 3.81
6½ to 7 years..... (12/1/64)	12.32	30.81	61.62	123.24	246.48	616.20	1,232.40	3.24	<sup>2</sup> 3.84
7 to 7½ years..... (6/1/65)	12.55	31.37	62.74	125.48	250.96	627.40	1,254.80	3.27	<sup>2</sup> 3.87
7½ to 8 years..... (12/1/65)	12.77	31.93	63.86	127.72	255.44	638.60	1,277.20	3.29	<sup>2</sup> 3.84
8 to 8½ years..... (6/1/66)	13.01	32.52	65.04	130.08	260.16	650.40	1,300.80	3.31	<sup>2</sup> 4.50
8½ to 9 years..... (12/1/66)	13.28	33.20	66.40	132.80	265.60	664.00	1,328.00	3.37	<sup>2</sup> 4.61
9 to 9½ years..... (6/1/67)	13.57	33.93	67.86	135.72	271.44	678.60	1,357.20	3.42	<sup>2</sup> 4.72
9½ to 10 years..... (12/1/67)	13.88	34.70	69.40	138.80	277.60	694.00	1,388.00	3.48	<sup>2</sup> 4.90
<b>FIRST EXTENDED MATURITY VALUE (10 years from original maturity date)<sup>3</sup>... (6/1/68)</b>	<b>14.22</b>	<b>35.55</b>	<b>71.10</b>	<b>142.20</b>	<b>284.40</b>	<b>711.00</b>	<b>1,422.00</b>	<b>6 3.55</b>	-----
Period after first extended maturity (beginning 20 years after issue date)	SECOND EXTENDED MATURITY PERIOD								(b) to second extended maturity
First ½ year..... (6/1/68)	\$14.22	\$35.55	\$71.10	\$142.20	\$284.40	\$711.00	\$1,422.00	0.00	4.25
½ to 1 year..... (12/1/68)	14.52	36.29	72.58	145.16	290.32	725.80	1,451.60	4.16	4.25
1 to 1½ years..... (6/1/69)	14.82	37.04	74.08	148.16	296.32	740.80	1,481.60	4.15	4.26
1½ to 2 years..... (12/1/69)	15.12	37.81	75.62	151.24	302.48	756.20	1,512.40	4.15	4.27
2 to 2½ years..... (6/1/70)	15.41	38.59	77.18	154.36	308.72	771.80	1,543.60	4.15	4.27
2½ to 3 years..... (12/1/70)	15.76	39.39	78.78	157.56	315.12	787.80	1,575.60	4.15	4.28
3 to 3½ years..... (6/1/71)	16.08	40.21	80.42	160.84	321.68	804.20	1,608.40	4.15	4.29
3½ to 4 years..... (12/1/71)	16.42	41.05	82.10	164.20	328.40	821.00	1,642.00	4.15	4.30
4 to 4½ years..... (6/1/72)	16.76	41.90	83.80	167.60	335.20	838.00	1,676.00	4.15	4.31
4½ to 5 years..... (12/1/72)	17.11	42.77	85.54	171.08	342.16	855.40	1,710.80	4.15	4.33
5 to 5½ years..... (6/1/73)	17.46	43.65	87.30	174.60	349.20	873.00	1,746.00	4.15	4.35
5½ to 6 years..... (12/1/73)	17.82	44.56	89.12	178.24	356.48	891.20	1,782.40	4.15	4.37
6 to 6½ years..... (6/1/74)	18.20	45.49	90.98	181.96	363.92	909.80	1,819.60	4.15	4.39
6½ to 7 years..... (12/1/74)	18.57	46.43	92.86	185.72	371.44	928.60	1,857.20	4.15	4.43
7 to 7½ years..... (6/1/75)	18.96	47.39	94.78	189.56	379.12	947.80	1,895.60	4.15	4.48
7½ to 8 years..... (12/1/75)	19.35	48.38	96.76	193.52	387.04	967.60	1,935.20	4.15	4.54
8 to 8½ years..... (6/1/76)	19.75	49.38	98.76	197.52	395.04	987.60	1,975.20	4.15	4.65
8½ to 9 years..... (12/1/76)	20.16	50.40	100.80	201.60	403.20	1,008.00	2,016.00	4.15	4.82
9 to 9½ years..... (6/1/77)	20.58	51.45	102.90	205.80	411.60	1,029.00	2,058.00	4.15	5.14
9½ to 10 years..... (12/1/77)	21.01	52.52	105.04	210.08	420.16	1,050.40	2,100.80	4.15	6.13
<b>SECOND EXTENDED MATURITY VALUE (20 years from original maturity date)<sup>4</sup>... (6/1/78)</b>	<b>21.65</b>	<b>54.13</b>	<b>108.26</b>	<b>216.52</b>	<b>433.04</b>	<b>1,082.60</b>	<b>2,165.20</b>	<b>6 4.25</b>	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1968, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the June 1, 1969, revision.<sup>3</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the June 1, 1968, revision.<sup>5</sup> 20 years from issue date.<sup>6</sup> Yield on purchase price from issue date to first extended maturity date is 3.22 percent; second extended maturity date is 3.57 percent.<sup>7</sup> 30 years from issue date. Second extended maturity value improved by the revision of June 1, 1968.

TABLE 19

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1948, THROUGH MAY 1, 1949

Issue price Denomination.....	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the re- demption value at start of each extended ma- turity period to the begin- ning of each half-year period there- after	(3) On cur- rent redem- tion value from begin- ning of each half-year period (a) to first extended maturity
FIRST EXTENDED MATURITY PERIOD									
								Percent	Percent
First ½ year..... <sup>1</sup> (12/1/58)	\$10.00	\$25.00	\$50.00	\$100.00	\$200.00	\$500.00	\$1,000.00	0.00	<sup>2</sup> 3.00
½ to 1 year.....(6/1/59)	10.15	25.37	50.75	101.50	203.00	507.50	1,015.00	3.00	<sup>3</sup> 3.50
1 to 1½ years.....(12/1/59)	10.30	25.76	51.52	103.04	206.08	515.20	1,030.40	3.02	<sup>4</sup> 3.53
1½ to 2 years.....(6/1/60)	10.46	26.14	52.28	104.56	209.12	522.80	1,045.60	2.99	<sup>5</sup> 3.56
2 to 2½ years.....(12/1/60)	10.61	26.53	53.06	106.12	212.24	530.60	1,061.20	2.99	<sup>6</sup> 3.59
2½ to 3 years.....(6/1/61)	10.78	26.96	53.92	107.84	215.68	539.20	1,078.40	3.04	<sup>7</sup> 3.62
3 to 3½ years.....(12/1/61)	10.96	27.39	54.78	109.56	219.12	547.80	1,095.60	3.07	<sup>8</sup> 3.65
3½ to 4 years.....(6/1/62)	11.13	27.83	55.66	111.32	222.64	556.60	1,113.20	3.09	<sup>9</sup> 3.68
4 to 4½ years.....(12/1/62)	11.31	28.28	56.56	113.12	226.24	565.60	1,131.20	3.11	<sup>10</sup> 3.72
4½ to 5 years.....(6/1/63)	11.50	28.74	57.48	114.96	229.92	574.80	1,149.60	3.12	<sup>11</sup> 3.76
5 to 5½ years.....(12/1/63)	11.70	29.26	58.52	117.04	234.08	585.20	1,170.40	3.17	<sup>12</sup> 3.78
5½ to 6 years.....(6/1/64)	11.92	29.79	59.58	119.16	238.32	595.80	1,191.60	3.21	<sup>13</sup> 3.79
6 to 6½ years.....(12/1/64)	12.13	30.33	60.66	121.32	242.64	606.60	1,213.20	3.25	<sup>14</sup> 3.82
6½ to 7 years.....(6/1/65)	12.35	30.87	61.74	123.48	246.96	617.40	1,234.80	3.27	<sup>15</sup> 3.85
7 to 7½ years.....(12/1/65)	12.57	31.43	62.86	125.72	251.44	628.60	1,257.20	3.30	<sup>16</sup> 3.89
7½ to 8 years.....(6/1/66)	12.80	32.01	64.02	128.04	256.08	640.20	1,280.40	3.32	<sup>17</sup> 4.41
8 to 8½ years.....(12/1/66)	13.05	32.63	65.26	130.52	261.04	652.60	1,305.20	3.36	<sup>18</sup> 4.55
8½ to 9 years.....(6/1/67)	13.33	33.33	66.66	133.32	266.64	666.60	1,333.20	3.41	<sup>19</sup> 4.63
9 to 9½ years.....(12/1/67)	13.63	34.07	68.14	136.28	272.56	681.40	1,362.80	3.47	<sup>20</sup> 4.73
9½ to 10 years.....(6/1/68)	13.94	34.85	69.70	139.40	278.80	697.00	1,394.00	3.53	<sup>21</sup> 4.90
FIRST EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>2</sup> .....(12/1/68)	14.29	35.72	71.44	142.88	285.76	714.40	1,428.80	<sup>6</sup> 3.60	
Period after first extended maturity (beginning 20 years after issue date)	SECOND EXTENDED MATURITY PERIOD <sup>1</sup>								(b) to second extended maturity
First ½ year.....(12/1/68)	\$14.29	\$35.72	\$71.44	\$142.88	\$285.76	\$714.40	\$1,428.80	0.00	4.25
½ to 1 year.....(6/1/69)	14.58	36.46	72.92	145.84	291.68	729.20	1,458.40	4.14	4.25
1 to 1½ years.....(12/1/69)	14.89	37.22	74.44	148.88	297.76	744.40	1,488.80	4.16	4.26
1½ to 2 years.....(6/1/70)	15.20	37.99	75.98	151.96	303.92	759.80	1,519.60	4.15	4.27
2 to 2½ years.....(12/1/70)	15.51	38.78	77.56	155.12	310.24	775.60	1,551.20	4.15	4.27
2½ to 3 years.....(6/1/71)	15.83	39.58	79.16	158.32	316.64	791.60	1,583.20	4.15	4.28
3 to 3½ years.....(12/1/71)	16.16	40.40	80.80	161.60	323.20	808.00	1,616.00	4.15	4.29
3½ to 4 years.....(6/1/72)	16.50	41.24	82.48	164.96	329.92	824.80	1,649.60	4.15	4.30
4 to 4½ years.....(12/1/72)	16.84	42.10	84.20	168.40	336.80	842.00	1,684.00	4.15	4.31
4½ to 5 years.....(6/1/73)	17.19	42.97	85.94	171.88	343.76	859.40	1,718.80	4.15	4.33
5 to 5½ years.....(12/1/73)	17.54	43.86	87.72	175.44	350.88	877.20	1,754.40	4.15	4.35
5½ to 6 years.....(6/1/74)	17.91	44.77	89.54	179.08	358.16	895.40	1,790.80	4.15	4.37
6 to 6½ years.....(12/1/74)	18.28	45.70	91.40	182.80	365.60	914.00	1,828.00	4.15	4.40
6½ to 7 years.....(6/1/75)	18.66	46.65	93.30	186.60	373.20	933.00	1,866.00	4.15	4.43
7 to 7½ years.....(12/1/75)	19.05	47.62	95.24	190.48	380.96	952.40	1,904.80	4.15	4.48
7½ to 8 years.....(6/1/76)	19.44	48.61	97.22	194.44	388.88	972.20	1,944.40	4.15	4.54
8 to 8½ years.....(12/1/76)	19.85	49.62	99.24	198.48	396.96	992.40	1,984.80	4.15	4.64
8½ to 9 years.....(6/1/77)	20.26	50.65	101.30	202.60	405.20	1,013.00	2,026.00	4.15	4.73
9 to 9½ years.....(12/1/77)	20.68	51.70	103.40	206.80	413.60	1,034.00	2,068.00	4.15	5.14
9½ to 10 years.....(6/1/78)	21.11	52.77	105.54	211.08	422.16	1,055.40	2,110.80	4.15	6.14
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) <sup>2</sup> .....(12/1/78)	21.76	54.39	108.78	217.56	435.12	1,087.80	2,175.60	<sup>6</sup> 4.25	

<sup>1</sup> Month, day, and year on which issues of December 1, 1948, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the June 1, 1959, revision.<sup>3</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each half-year period to first extended maturity at first extended maturity value prior to the June 1, 1968, revision.<sup>5</sup> 20 years from issue date. First extended maturity value improved by the revision of June 1, 1968.<sup>6</sup> Yield on purchase price from issue date to first extended maturity date is 3.25 percent; to second extended maturity date is 3.58 percent.<sup>7</sup> Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.<sup>8</sup> 30 years from issue date.



**TABLE 20**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1949**

Issue price ----- Denomination -----	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period there- after	(3) On current redemption value from beginning of each half-year period to extended maturity
Period after original maturity (begin- ning 10 years after issue date)	EXTENDED MATURITY PERIOD								
First ½ year ----- 1(6/1/59)	\$10.00	\$25.00	\$50.00	\$100.00	\$200.00	\$500.00	\$1,000.00	Percent 0.00	Percent 2 3.75
½ to 1 year ----- (12/1/59)	10.18	25.44	50.88	101.76	203.52	508.80	1,017.60	3.52	2 3.76
1 to 1½ years ----- (6/1/60)	10.36	25.89	51.78	103.56	207.12	517.80	1,035.60	3.53	2 3.77
1½ to 2 years ----- (12/1/60)	10.54	26.35	52.70	105.40	210.80	527.00	1,054.00	3.54	2 3.79
2 to 2½ years ----- (6/1/61)	10.73	26.83	53.66	107.32	214.64	536.60	1,073.20	3.56	2 3.80
2½ to 3 years ----- (12/1/61)	10.92	27.31	54.62	109.24	218.48	546.20	1,092.40	3.57	2 3.81
3 to 3½ years ----- (6/1/62)	11.12	27.81	55.62	111.24	222.48	556.20	1,112.40	3.58	2 3.82
3½ to 4 years ----- (12/1/62)	11.33	28.32	56.64	113.28	226.56	566.40	1,132.80	3.59	2 3.83
4 to 4½ years ----- (6/1/63)	11.54	28.84	57.68	115.36	230.72	576.80	1,153.60	3.60	2 3.85
4½ to 5 years ----- (12/1/63)	11.75	29.38	58.76	117.52	235.04	587.60	1,175.20	3.62	2 3.86
5 to 5½ years ----- (6/1/64)	11.97	29.93	59.86	119.72	239.44	598.60	1,197.20	3.63	2 3.87
5½ to 6 years ----- (12/1/64)	12.20	30.49	60.98	121.96	243.92	609.80	1,219.60	3.64	2 3.88
6 to 6½ years ----- (6/1/65)	12.43	31.07	62.14	124.28	248.56	621.40	1,242.80	3.66	2 3.89
6½ to 7 years ----- (12/1/65)	12.66	31.66	63.32	126.64	253.28	633.20	1,266.40	3.67	2 3.91
7 to 7½ years ----- (6/1/66)	12.91	32.27	64.54	129.08	258.16	645.40	1,290.80	3.68	2 3.93
7½ to 8 years ----- (12/1/66)	13.17	32.93	65.86	131.72	263.44	658.60	1,317.20	3.71	2 3.94
8 to 8½ years ----- (6/1/67)	13.45	33.62	67.24	134.48	268.96	672.40	1,344.80	3.74	2 3.95
8½ to 9 years ----- (12/1/67)	13.74	34.34	68.68	137.36	274.72	686.80	1,373.60	3.77	2 3.96
9 to 9½ years ----- (6/1/68)	14.04	35.10	70.20	140.40	280.80	702.00	1,404.00	3.81	2 4.59
9½ to 10 years ----- (12/1/68)	14.36	35.91	71.82	143.64	287.28	718.20	1,436.40	3.85	2 4.96
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> ----- (6/1/69)	14.72	36.80	73.60	147.20	294.40	736.00	1,472.00	<sup>5</sup> 3.90	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.40 percent.

**TABLE 21**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1949, THROUGH MAY 1, 1950**

Issue price Denomination	\$7.50 10.00	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period there- after	(3) On current redemption value from beginning of each half-year period to extended maturity
Period after original maturity (begin- ning 10 years after issue date)	EXTENDED MATURITY PERIOD								
First ½ year..... <sup>1</sup> (12/1/59)	\$10.03	\$25.08	\$50.16	\$100.32	\$200.64	\$501.60	\$1,003.20	Percent 0.00	Percent 2 3.75
½ to 1 year.....(6/1/60)	10.21	25.52	51.04	102.08	204.16	510.40	1,020.80	3.51	2 3.76
1 to 1½ years.....(12/1/60)	10.39	25.97	51.94	103.88	207.76	519.40	1,038.80	3.52	2 3.77
1½ to 2 years.....(6/1/61)	10.58	26.44	52.88	105.76	211.52	528.80	1,057.60	3.55	2 3.78
2 to 2½ years.....(12/1/61)	10.76	26.91	53.82	107.64	215.28	538.20	1,076.40	3.55	2 3.80
2½ to 3 years.....(6/1/62)	10.96	27.40	54.80	109.60	219.20	548.00	1,096.00	3.57	2 3.81
3 to 3½ years.....(12/1/62)	11.16	27.90	55.80	111.60	223.20	558.00	1,116.00	3.58	2 3.82
3½ to 4 years.....(6/1/63)	11.36	28.41	56.82	113.64	227.28	568.20	1,136.40	3.59	2 3.83
4 to 4½ years.....(12/1/63)	11.57	28.93	57.86	115.72	231.44	578.60	1,157.20	3.60	2 3.85
4½ to 5 years.....(6/1/64)	11.79	29.47	58.94	117.88	235.76	589.40	1,178.80	3.62	2 3.86
5 to 5½ years.....(12/1/64)	12.01	30.02	60.04	120.08	240.16	600.40	1,200.80	3.63	2 3.87
5½ to 6 years.....(6/1/65)	12.24	30.59	61.18	122.36	244.72	611.80	1,223.60	3.64	2 3.88
6 to 6½ years.....(12/1/65)	12.46	31.16	62.32	124.64	249.28	623.20	1,246.40	3.65	2 3.90
6½ to 7 years.....(6/1/66)	12.71	31.77	63.54	127.08	254.16	635.40	1,270.80	3.67	2 3.93
7 to 7½ years.....(12/1/66)	12.96	32.40	64.80	129.60	259.20	648.00	1,296.00	3.69	2 3.94
7½ to 8 years.....(6/1/67)	13.22	33.06	66.12	132.24	264.48	661.20	1,322.40	3.72	2 3.99
8 to 8½ years.....(12/1/67)	13.50	33.76	67.52	135.04	270.08	675.20	1,350.40	3.75	2 4.55
8½ to 9 years.....(6/1/68)	13.80	34.50	69.00	138.00	276.00	690.00	1,380.00	3.79	2 4.72
9 to 9½ years.....(12/1/68)	14.11	35.27	70.54	141.08	282.16	705.40	1,410.80	3.82	2 4.85
9½ to 10 years.....(6/1/69)	14.44	36.10	72.20	144.40	288.80	722.00	1,444.00	3.87	2 4.99
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>1</sup> .....(12/1/69)	14.80	37.00	74.00	148.00	296.00	740.00	1,480.00	5 3.93	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.43 percent.

TABLE 22

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1950

Issue price..... Denomination.....	\$18. 75 25. 00	\$37. 50 50. 00	\$75. 00 100. 00	\$150. 00 200. 00	\$375. 00 500. 00	\$750. 00 1, 000. 00	Approximate investment yield	
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the re- demption value at start of the extended maturity pe- riod to the be- ginning of each half-year pe- riod thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							
First ½ year..... <sup>1</sup> (6/1/60)	\$25. 15	\$50. 30	\$100. 60	\$201. 20	\$503. 00	\$1, 006. 00	Percent 0. 00	Percent <sup>2</sup> 3. 75
½ to 1 year.....(12/1/60)	25. 59	51. 18	102. 36	204. 72	511. 80	1, 023. 60	3. 50	<sup>2</sup> 3. 76
1 to 1½ years.....(6/1/61)	26. 05	52. 10	104. 20	208. 40	521. 00	1, 042. 00	3. 55	<sup>2</sup> 3. 77
1½ to 2 years.....(12/1/61)	26. 51	53. 02	106. 04	212. 08	530. 20	1, 060. 40	3. 54	<sup>2</sup> 3. 79
2 to 2½ years.....(6/1/62)	26. 99	53. 98	107. 96	215. 92	539. 80	1, 079. 60	3. 56	<sup>2</sup> 3. 80
2½ to 3 years.....(12/1/62)	27. 48	54. 96	109. 92	219. 84	549. 60	1, 099. 20	3. 58	<sup>2</sup> 3. 81
3 to 3½ years.....(6/1/63)	27. 98	55. 96	111. 92	223. 84	559. 60	1, 119. 20	3. 59	<sup>2</sup> 3. 82
3½ to 4 years.....(12/1/63)	28. 49	56. 98	113. 96	227. 92	569. 80	1, 139. 60	3. 59	<sup>2</sup> 3. 84
4 to 4½ years.....(6/1/64)	29. 01	58. 02	116. 04	232. 08	580. 20	1, 160. 40	3. 60	<sup>2</sup> 3. 85
4½ to 5 years.....(12/1/64)	29. 55	59. 10	118. 20	236. 40	591. 00	1, 182. 00	3. 62	<sup>2</sup> 3. 86
5 to 5½ years.....(6/1/65)	30. 10	60. 20	120. 40	240. 80	602. 00	1, 204. 00	3. 63	<sup>2</sup> 3. 88
5½ to 6 years.....(12/1/65)	30. 67	61. 34	122. 68	245. 36	613. 40	1, 226. 80	3. 64	<sup>2</sup> 3. 29
6 to 6½ years.....(6/1/66)	31. 26	62. 52	125. 04	250. 08	625. 20	1, 250. 40	3. 66	<sup>2</sup> 3. 40
6½ to 7 years.....(12/1/66)	31. 88	63. 76	127. 52	255. 04	637. 60	1, 275. 20	3. 68	<sup>2</sup> 3. 43
7 to 7½ years.....(6/1/67)	32. 53	65. 06	130. 12	260. 24	650. 60	1, 301. 20	3. 71	<sup>2</sup> 3. 45
7½ to 8 years.....(12/1/67)	33. 20	66. 40	132. 80	265. 60	664. 00	1, 328. 00	3. 74	<sup>2</sup> 3. 51
8 to 8½ years.....(6/1/68)	33. 92	67. 84	135. 68	271. 36	678. 40	1, 356. 80	3. 77	<sup>2</sup> 4. 67
8½ to 9 years.....(12/1/68)	34. 67	69. 34	138. 68	277. 36	693. 40	1, 386. 80	3. 81	<sup>2</sup> 4. 75
9 to 9½ years.....(6/1/69)	35. 44	70. 88	141. 76	283. 52	708. 80	1, 417. 60	3. 85	<sup>2</sup> 4. 91
9½ to 10 years.....(12/1/69)	36. 26	72. 52	145. 04	290. 08	725. 20	1, 450. 40	3. 89	<sup>2</sup> 5. 18
EXTENDED MATURITY VALUE (10 years from ori ninal maturity date) <sup>4</sup> .....(6/1/70)	37. 20	74. 40	148. 80	297. 60	744. 00	1, 488. 00	<sup>3</sup> 3. 95	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.46 percent.

TABLE 23

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1950, THROUGH MAY 1, 1951

Issue price..... Denomination.....	\$18. 75 25. 00	\$37. 50 50. 00	\$75. 00 100. 00	\$150. 00 200. 00	\$375. 00 500. 00	\$750. 00 1, 000. 00	Approximate investment yield	
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the re- demption value at start of the extended maturity pe- riod to the be- ginning of each half-year pe- riod thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							
First ½ year..... <sup>1</sup> (12/1/60)	\$25. 22	\$50. 44	\$100. 88	\$201. 76	\$504. 40	\$1, 008. 80	Percent 0. 00	Percent <sup>2</sup> 3. 75
½ to 1 year.....(6/1/61)	25. 66	51. 32	102. 64	205. 28	513. 20	1, 026. 40	3. 49	<sup>2</sup> 3. 76
1 to 1½ years.....(12/1/61)	26. 12	52. 24	104. 48	208. 96	522. 40	1, 044. 80	3. 54	<sup>2</sup> 3. 77
1½ to 2 years.....(6/1/62)	26. 58	53. 16	106. 32	212. 64	531. 60	1, 063. 20	3. 55	<sup>2</sup> 3. 79
2 to 2½ years.....(12/1/62)	27. 06	54. 12	108. 24	216. 48	541. 20	1, 082. 40	3. 55	<sup>2</sup> 3. 80
2½ to 3 years.....(6/1/63)	27. 55	55. 10	110. 20	220. 40	551. 00	1, 102. 00	3. 57	<sup>2</sup> 3. 81
3 to 3½ years.....(12/1/63)	28. 05	56. 10	112. 20	224. 40	561. 00	1, 122. 00	3. 58	<sup>2</sup> 3. 83
3½ to 4 years.....(6/1/64)	28. 57	57. 14	114. 28	228. 56	571. 40	1, 142. 80	3. 60	<sup>2</sup> 3. 83
4 to 4½ years.....(12/1/64)	29. 09	58. 18	116. 36	232. 72	581. 80	1, 163. 60	3. 60	<sup>2</sup> 3. 85
4½ to 5 years.....(6/1/65)	29. 63	59. 26	118. 52	237. 04	592. 60	1, 185. 20	3. 61	<sup>2</sup> 3. 86
5 to 5½ years.....(12/1/65)	30. 19	60. 38	120. 76	241. 52	603. 80	1, 207. 60	3. 63	<sup>2</sup> 3. 47
5½ to 6 years.....(6/1/66)	30. 77	61. 54	123. 08	246. 16	615. 40	1, 230. 80	3. 65	<sup>2</sup> 3. 32
6 to 6½ years.....(12/1/66)	31. 37	62. 74	125. 48	250. 96	627. 40	1, 254. 80	3. 67	<sup>2</sup> 3. 45
6½ to 7 years.....(6/1/67)	32. 00	64. 00	128. 00	256. 00	640. 00	1, 280. 00	3. 70	<sup>2</sup> 3. 43
7 to 7½ years.....(12/1/67)	32. 65	65. 30	130. 60	261. 20	653. 00	1, 306. 00	3. 72	<sup>2</sup> 3. 49
7½ to 8 years.....(6/1/68)	33. 35	66. 70	133. 40	266. 80	667. 00	1, 334. 00	3. 76	<sup>2</sup> 4. 64
8 to 8½ years.....(12/1/68)	34. 06	68. 12	136. 24	272. 48	681. 20	1, 362. 40	3. 79	<sup>2</sup> 4. 73
8½ to 9 years.....(6/1/69)	34. 82	69. 64	139. 28	278. 56	696. 40	1, 392. 80	3. 83	<sup>2</sup> 4. 82
9 to 9½ years.....(12/1/69)	35. 61	71. 22	142. 44	284. 88	712. 20	1, 424. 40	3. 87	<sup>2</sup> 4. 97
9½ to 10 years.....(6/1/70)	36. 43	72. 86	145. 72	291. 44	728. 60	1, 457. 20	3. 91	<sup>2</sup> 5. 33
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(12/1/70)	37. 40	74. 80	149. 60	299. 20	748. 00	1, 496. 00	<sup>3</sup> 3. 98	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.48 percent.

TABLE 24

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1951

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the red- emption value at start of the extended maturity pe- riod to the be- ginning of each half-year pe- riod thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							
							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/61)	\$25.30	\$50.60	\$101.20	\$202.40	\$506.00	\$1,012.00	0.00	<sup>2</sup> 3.75
½ to 1 year.....(12/1/61)	25.75	51.50	103.00	206.00	515.00	1,030.00	3.56	<sup>2</sup> 3.76
1 to 1½ years.....(6/1/62)	26.20	52.40	104.80	209.60	524.00	1,048.00	3.53	<sup>2</sup> 3.77
1½ to 2 years.....(12/1/62)	26.67	53.34	106.68	213.36	533.40	1,066.80	3.55	<sup>2</sup> 3.78
2 to 2½ years.....(6/1/63)	27.15	54.30	108.60	217.20	543.00	1,086.00	3.56	<sup>2</sup> 3.80
2½ to 3 years.....(12/1/63)	27.64	55.28	110.56	221.12	552.80	1,105.60	3.57	<sup>2</sup> 3.81
3 to 3½ years.....(6/1/64)	28.14	56.28	112.56	225.12	562.80	1,125.60	3.58	<sup>2</sup> 3.82
3½ to 4 years.....(12/1/64)	28.66	57.32	114.64	229.28	573.20	1,146.40	3.59	<sup>2</sup> 3.83
4 to 4½ years.....(6/1/65)	29.19	58.38	116.76	233.52	583.80	1,167.60	3.61	<sup>2</sup> 3.84
4½ to 5 years.....(12/1/65)	29.73	59.46	118.92	237.84	594.60	1,189.20	3.62	<sup>2</sup> 4.26
5 to 5½ years.....(6/1/66)	30.29	60.58	121.16	242.32	605.80	1,211.60	3.63	<sup>2</sup> 4.31
5½ to 6 years.....(12/1/66)	30.87	61.74	123.48	246.96	617.40	1,234.80	3.65	<sup>2</sup> 4.36
6 to 6½ years.....(6/1/67)	31.49	62.98	125.96	251.92	629.80	1,259.60	3.68	<sup>2</sup> 4.40
6½ to 7 years.....(12/1/67)	32.13	64.26	128.52	257.04	642.60	1,285.20	3.71	<sup>2</sup> 4.45
7 to 7½ years.....(6/1/68)	32.80	65.60	131.20	262.40	656.00	1,312.00	3.74	<sup>2</sup> 4.60
7½ to 8 years.....(12/1/68)	33.50	67.00	134.00	268.00	670.00	1,340.00	3.78	<sup>2</sup> 4.67
8 to 8½ years.....(6/1/69)	34.23	68.46	136.92	273.84	684.60	1,369.20	3.81	<sup>2</sup> 4.75
8½ to 9 years.....(12/1/69)	34.99	69.98	139.96	279.92	699.80	1,399.60	3.85	<sup>2</sup> 4.85
9 to 9½ years.....(6/1/70)	35.79	71.58	143.16	286.32	715.80	1,431.60	3.89	<sup>2</sup> 4.99
9½ to 10 years.....(12/1/70)	36.62	73.24	146.48	292.96	732.40	1,464.80	3.93	<sup>2</sup> 5.35
EXTENDED MATURITY VALUE (10 years from original ma- turity date) <sup>4</sup> .....(6/1/71)	37.60	75.20	150.40	300.80	752.00	1,504.00	<sup>3</sup> 4.00	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.51 percent.

TABLE 25

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1951, THROUGH APRIL 1, 1952

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	Approximate investment yield	
Period after original maturity (beginning 10 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the red- emption value at start of the extended maturity pe- riod to the be- ginning of each half-year pe- riod thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							
							Percent	Percent
First ½ year..... <sup>1</sup> (12/1/61)	\$25.37	\$50.74	\$101.48	\$202.96	\$507.40	\$1,014.80	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/62)	25.82	51.64	103.28	206.56	516.40	1,032.80	3.55	<sup>2</sup> 3.76
1 to 1½ years.....(12/1/62)	26.27	52.54	105.08	210.16	525.40	1,050.80	3.52	<sup>2</sup> 3.78
1½ to 2 years.....(6/1/63)	26.74	53.48	106.96	213.92	534.40	1,069.60	3.54	<sup>2</sup> 3.79
2 to 2½ years.....(12/1/63)	27.22	54.44	108.88	217.76	544.40	1,088.80	3.55	<sup>2</sup> 3.80
2½ to 3 years.....(6/1/64)	27.72	55.44	110.88	221.76	554.40	1,108.80	3.58	<sup>2</sup> 3.81
3 to 3½ years.....(12/1/64)	28.22	56.44	112.88	225.76	564.40	1,128.80	3.58	<sup>2</sup> 3.82
3½ to 4 years.....(6/1/65)	28.74	57.48	114.96	229.92	574.80	1,149.60	3.60	<sup>2</sup> 3.84
4 to 4½ years.....(12/1/65)	29.27	58.54	117.08	234.16	585.40	1,170.80	3.61	<sup>2</sup> 4.25
4½ to 5 years.....(6/1/66)	29.82	59.64	119.28	238.56	596.40	1,192.80	3.62	<sup>2</sup> 4.29
5 to 5½ years.....(12/1/66)	30.39	60.78	121.56	243.12	607.80	1,215.60	3.64	<sup>2</sup> 4.34
5½ to 6 years.....(6/1/67)	30.99	61.98	123.96	247.92	619.80	1,239.60	3.67	<sup>2</sup> 4.39
6 to 6½ years.....(12/1/67)	31.60	63.20	126.40	252.80	632.00	1,264.00	3.69	<sup>2</sup> 4.44
6½ to 7 years.....(6/1/68)	32.26	64.52	129.04	258.08	645.20	1,290.40	3.73	<sup>2</sup> 4.58
7 to 7½ years.....(12/1/68)	32.94	65.88	131.76	263.52	658.80	1,317.60	3.77	<sup>2</sup> 4.64
7½ to 8 years.....(6/1/69)	33.64	67.28	134.56	269.12	672.80	1,345.60	3.80	<sup>2</sup> 4.72
8 to 8½ years.....(12/1/69)	34.38	68.76	137.52	275.04	687.60	1,375.20	3.81	<sup>2</sup> 4.80
8½ to 9 years.....(6/1/70)	35.16	70.32	140.64	281.28	703.20	1,406.40	3.88	<sup>2</sup> 4.89
9 to 9½ years.....(12/1/70)	35.96	71.92	143.84	287.68	719.20	1,438.40	3.91	<sup>2</sup> 5.05
9½ to 10 years.....(6/1/71)	36.80	73.60	147.20	294.40	736.00	1,472.00	3.95	<sup>2</sup> 5.43
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(12/1/71)	37.80	75.60	151.20	302.40	756.00	1,512.00	<sup>3</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 20 years from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.54 percent.

TABLE 26

## BONDS BEARING ISSUE DATE OF MAY 1, 1952

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (1/1/62)	\$25.27	\$50.54	\$101.08	\$202.16	\$505.40	\$1,010.80	\$10,108	0.00	<sup>2</sup> 3.75
½ to 1 year.....(7/1/62)	25.71	51.42	102.84	205.68	514.20	1,028.40	10,284	3.48	<sup>2</sup> 3.76
1 to 1½ years.....(1/1/63)	26.17	52.34	104.68	209.36	523.40	1,046.80	10,468	3.53	<sup>2</sup> 3.77
1½ to 2 years.....(7/1/63)	26.64	53.28	106.56	213.12	532.80	1,065.60	10,656	3.55	<sup>2</sup> 3.79
2 to 2½ years.....(1/1/64)	27.12	54.24	108.48	216.96	542.40	1,084.80	10,848	3.56	<sup>2</sup> 3.80
2½ to 3 years.....(7/1/64)	27.61	55.22	110.44	220.88	552.20	1,104.40	11,044	3.57	<sup>2</sup> 3.81
3 to 3½ years.....(1/1/65)	28.11	56.22	112.44	224.88	562.20	1,124.40	11,244	3.58	<sup>2</sup> 3.82
3½ to 4 years.....(7/1/65)	28.62	57.24	114.48	228.96	572.40	1,144.80	11,448	3.59	<sup>2</sup> 3.84
4 to 4½ years.....(1/1/66)	29.15	58.30	116.60	233.20	583.00	1,166.00	11,660	3.60	<sup>2</sup> 4.25
4½ to 5 years.....(7/1/66)	29.70	59.40	118.80	237.60	594.00	1,188.00	11,880	3.62	<sup>2</sup> 4.30
5 to 5½ years.....(1/1/67)	30.27	60.54	121.08	242.16	605.40	1,210.80	12,108	3.64	<sup>2</sup> 4.34
5½ to 6 years.....(7/1/67)	30.87	61.74	123.48	246.96	617.40	1,234.80	12,348	3.67	<sup>2</sup> 4.38
6 to 6½ years.....(1/1/68)	31.48	62.96	125.92	251.84	629.60	1,259.20	12,592	3.70	<sup>2</sup> 4.41
6½ to 7 years.....(7/1/68)	32.13	64.26	128.52	257.04	642.60	1,285.20	12,852	3.73	<sup>2</sup> 4.58
7 to 7½ years.....(1/1/69)	32.81	65.62	131.24	262.48	656.20	1,312.40	13,124	3.77	<sup>2</sup> 4.64
7½ to 8 years.....(7/1/69)	33.51	67.02	134.04	268.08	670.20	1,340.40	13,404	3.80	<sup>2</sup> 4.71
8 to 8½ years.....(1/1/70)	34.25	68.50	137.00	274.00	685.00	1,370.00	13,700	3.84	<sup>2</sup> 4.79
8½ to 9 years.....(7/1/70)	35.02	70.04	140.08	280.16	700.40	1,400.80	14,008	3.88	<sup>2</sup> 4.89
9 to 9½ years.....(1/1/71)	35.82	71.64	143.28	286.56	716.40	1,432.80	14,328	3.91	<sup>2</sup> 5.05
9½ to 10 years.....(7/1/71)	36.65	73.30	146.60	293.20	733.00	1,466.00	14,660	3.95	<sup>2</sup> 5.46
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(1/1/72)	37.65	75.30	150.60	301.20	753.00	1,506.00	15,060	<sup>5</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which issues of May 1, 1952, enter each period.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 10 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.58 percent.

TABLE 27

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1952

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (2/1/62)	\$25.33	\$50.66	\$101.32	\$202.64	\$506.60	\$1,013.20	\$10,132	0.00	<sup>2</sup> 3.75
½ to 1 year.....(8/1/62)	25.78	51.56	103.12	206.24	515.60	1,031.20	10,312	3.55	<sup>2</sup> 3.76
1 to 1½ years.....(2/1/63)	26.23	52.46	104.92	209.84	524.60	1,049.20	10,492	3.52	<sup>2</sup> 3.78
1½ to 2 years.....(8/1/63)	26.70	53.40	106.80	213.60	534.00	1,068.00	10,680	3.54	<sup>2</sup> 3.79
2 to 2½ years.....(2/1/64)	27.18	54.36	108.72	217.44	543.60	1,087.20	10,872	3.56	<sup>2</sup> 3.80
2½ to 3 years.....(8/1/64)	27.67	55.34	110.68	221.36	553.40	1,106.80	11,068	3.57	<sup>2</sup> 3.81
3 to 3½ years.....(2/1/65)	28.18	56.36	112.72	225.44	563.60	1,127.20	11,272	3.59	<sup>2</sup> 3.82
3½ to 4 years.....(8/1/65)	28.69	57.38	114.76	229.52	573.80	1,147.60	11,476	3.59	<sup>2</sup> 3.84
4 to 4½ years.....(2/1/66)	29.22	58.44	116.88	233.76	584.40	1,168.80	11,688	3.60	<sup>2</sup> 4.25
4½ to 5 years.....(8/1/66)	29.77	59.54	119.08	238.16	595.40	1,190.80	11,908	3.62	<sup>2</sup> 4.30
5 to 5½ years.....(2/1/67)	30.34	60.68	121.36	242.72	606.80	1,213.60	12,136	3.64	<sup>2</sup> 4.34
5½ to 6 years.....(8/1/67)	30.94	61.88	123.76	247.52	618.80	1,237.60	12,376	3.67	<sup>2</sup> 4.39
6 to 6½ years.....(2/1/68)	31.56	63.12	126.24	252.48	631.20	1,262.40	12,624	3.70	<sup>2</sup> 4.43
6½ to 7 years.....(8/1/68)	32.20	64.40	128.80	257.60	644.00	1,288.00	12,880	3.73	<sup>2</sup> 4.59
7 to 7½ years.....(2/1/69)	32.89	65.78	131.56	263.12	657.80	1,315.60	13,156	3.77	<sup>2</sup> 4.64
7½ to 8 years.....(8/1/69)	33.59	67.18	134.36	268.72	671.80	1,343.60	13,436	3.80	<sup>2</sup> 4.71
8 to 8½ years.....(2/1/70)	34.33	68.66	137.32	274.64	686.60	1,373.20	13,732	3.84	<sup>2</sup> 4.79
8½ to 9 years.....(8/1/70)	35.10	70.20	140.40	280.80	702.00	1,404.00	14,040	3.87	<sup>2</sup> 4.89
9 to 9½ years.....(2/1/71)	35.90	71.80	143.60	287.20	718.00	1,436.00	14,360	3.91	<sup>2</sup> 5.06
9½ to 10 years.....(8/1/71)	36.74	73.48	146.96	293.92	734.80	1,469.60	14,696	3.95	<sup>2</sup> 5.44
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(2/1/72)	37.74	75.48	150.96	301.92	754.80	1,509.60	15,096	<sup>5</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 10 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.59 percent.



TABLE 28

## BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1952

Issue price ----- Denomination -----	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/62)	\$25.33	\$50.66	\$101.32	\$202.64	\$506.60	\$1,013.20	\$10,132	0.00	<sup>2</sup> 3.75
½ to 1 year..... <sup>1</sup> (12/1/62)	25.78	51.56	103.12	206.24	515.60	1,031.20	10,312	3.55	<sup>2</sup> 3.76
1 to 1½ years..... <sup>1</sup> (6/1/63)	26.23	52.46	104.92	209.84	524.60	1,049.20	10,492	3.52	<sup>2</sup> 3.78
1½ to 2 years..... <sup>1</sup> (12/1/63)	26.70	53.40	106.80	213.60	534.00	1,068.00	10,680	3.54	<sup>2</sup> 3.79
2 to 2½ years..... <sup>1</sup> (6/1/64)	27.18	54.36	108.72	217.44	543.60	1,087.20	10,872	3.56	<sup>2</sup> 3.80
2½ to 3 years..... <sup>1</sup> (12/1/64)	27.67	55.34	110.68	221.36	553.40	1,106.80	11,068	3.57	<sup>2</sup> 3.81
3 to 3½ years..... <sup>1</sup> (6/1/65)	28.19	56.38	112.72	225.44	563.60	1,127.20	11,272	3.59	<sup>2</sup> 3.82
3½ to 4 years..... <sup>1</sup> (12/1/65)	28.69	57.38	114.76	229.52	573.80	1,147.60	11,476	3.59	<sup>2</sup> 3.84
4 to 4½ years..... <sup>1</sup> (6/1/66)	29.23	58.46	116.92	233.84	584.60	1,169.20	11,692	3.61	<sup>2</sup> 3.85
4½ to 5 years..... <sup>1</sup> (12/1/66)	29.78	59.56	119.12	238.24	595.60	1,191.20	11,912	3.63	<sup>2</sup> 3.86
5 to 5½ years..... <sup>1</sup> (6/1/67)	30.36	60.72	121.44	242.88	607.20	1,214.40	12,144	3.66	<sup>2</sup> 3.87
5½ to 6 years..... <sup>1</sup> (12/1/67)	30.97	61.94	123.88	247.76	619.40	1,238.80	12,388	3.69	<sup>2</sup> 3.88
6 to 6½ years..... <sup>1</sup> (6/1/68)	31.60	63.20	126.40	252.80	632.00	1,264.00	12,640	3.72	<sup>2</sup> 3.89
6½ to 7 years..... <sup>1</sup> (12/1/68)	32.25	64.50	129.00	258.00	645.00	1,290.00	12,900	3.75	<sup>2</sup> 3.90
7 to 7½ years..... <sup>1</sup> (6/1/69)	32.94	65.88	131.76	263.52	658.80	1,317.60	13,176	3.79	<sup>2</sup> 3.91
7½ to 8 years..... <sup>1</sup> (12/1/69)	33.65	67.30	134.60	269.20	673.00	1,346.00	13,460	3.82	<sup>2</sup> 3.92
8 to 8½ years..... <sup>1</sup> (6/1/70)	34.39	68.78	137.56	275.12	687.80	1,375.60	13,756	3.86	<sup>2</sup> 3.93
8½ to 9 years..... <sup>1</sup> (12/1/70)	35.16	70.32	140.64	281.28	703.20	1,406.40	14,064	3.90	<sup>2</sup> 3.94
9 to 9½ years..... <sup>1</sup> (6/1/71)	35.97	71.94	143.88	287.76	719.40	1,438.80	14,388	3.93	<sup>2</sup> 3.95
9½ to 10 years..... <sup>1</sup> (12/1/71)	36.81	73.62	147.24	294.48	736.20	1,472.40	14,724	3.97	<sup>2</sup> 3.96
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>1</sup> .....(6/1/72)	37.83	75.66	151.32	302.64	756.60	1,513.20	15,132	<sup>4</sup> 4.05	-----

<sup>1</sup> Month, day, and year on which issues of October 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.90 percent.

TABLE 29

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1952, THROUGH MARCH 1, 1953

Issue price ----- Denomination -----	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (8/1/62)	\$25.39	\$50.78	\$101.56	\$203.12	\$507.80	\$1,015.60	\$10,156	0.00	<sup>2</sup> 3.75
½ to 1 year..... <sup>1</sup> (2/1/63)	25.84	51.68	103.36	206.72	516.80	1,033.60	10,336	3.54	<sup>2</sup> 3.76
1 to 1½ years..... <sup>1</sup> (8/1/63)	26.29	52.58	105.16	210.32	525.80	1,051.60	10,516	3.51	<sup>2</sup> 3.77
1½ to 2 years..... <sup>1</sup> (2/1/64)	26.76	53.52	107.04	214.08	535.20	1,070.40	10,704	3.53	<sup>2</sup> 3.79
2 to 2½ years..... <sup>1</sup> (8/1/64)	27.24	54.48	108.96	217.92	544.80	1,089.60	10,896	3.55	<sup>2</sup> 3.80
2½ to 3 years..... <sup>1</sup> (2/1/65)	27.74	55.48	110.96	221.92	554.80	1,109.60	11,096	3.57	<sup>2</sup> 3.81
3 to 3½ years..... <sup>1</sup> (8/1/65)	28.24	56.48	112.96	225.92	564.80	1,129.60	11,296	3.58	<sup>2</sup> 3.82
3½ to 4 years..... <sup>1</sup> (2/1/66)	28.76	57.52	115.04	230.08	575.20	1,150.40	11,504	3.59	<sup>2</sup> 3.83
4 to 4½ years..... <sup>1</sup> (8/1/66)	29.30	58.60	117.20	234.40	586.00	1,172.00	11,720	3.61	<sup>2</sup> 3.84
4½ to 5 years..... <sup>1</sup> (2/1/67)	29.85	59.70	119.40	238.80	597.00	1,194.00	11,940	3.63	<sup>2</sup> 3.85
5 to 5½ years..... <sup>1</sup> (8/1/67)	30.43	60.86	121.72	243.44	608.00	1,217.20	12,172	3.65	<sup>2</sup> 3.86
5½ to 6 years..... <sup>1</sup> (2/1/68)	31.04	62.08	124.16	248.32	620.80	1,241.60	12,416	3.69	<sup>2</sup> 3.87
6 to 6½ years..... <sup>1</sup> (8/1/68)	31.67	63.34	126.68	253.36	633.40	1,266.80	12,668	3.72	<sup>2</sup> 3.88
6½ to 7 years..... <sup>1</sup> (2/1/69)	32.33	64.66	129.32	258.64	646.60	1,293.20	12,932	3.75	<sup>2</sup> 3.89
7 to 7½ years..... <sup>1</sup> (8/1/69)	33.02	66.04	132.08	264.16	660.40	1,320.80	13,208	3.79	<sup>2</sup> 3.90
7½ to 8 years..... <sup>1</sup> (2/1/70)	33.73	67.46	134.92	269.84	674.60	1,349.20	13,492	3.82	<sup>2</sup> 3.91
8 to 8½ years..... <sup>1</sup> (8/1/70)	34.47	68.94	137.88	275.76	689.40	1,378.80	13,788	3.86	<sup>2</sup> 3.92
8½ to 9 years..... <sup>1</sup> (2/1/71)	35.24	70.48	140.96	281.92	704.80	1,409.60	14,096	3.89	<sup>2</sup> 3.93
9 to 9½ years..... <sup>1</sup> (8/1/71)	36.06	72.12	144.24	288.48	721.20	1,442.40	14,424	3.94	<sup>2</sup> 3.94
9½ to 10 years..... <sup>1</sup> (2/1/72)	36.90	73.80	147.60	295.20	738.00	1,476.00	14,760	3.97	<sup>2</sup> 3.95
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>1</sup> .....(8/1/72)	37.91	75.82	151.64	303.28	758.20	1,516.40	15,164	<sup>4</sup> 4.05	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.61 percent.

TABLE 30

BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1953

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (be- ginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (12/1/62)	\$25.39	\$50.78	\$101.56	\$203.12	\$507.80	\$1,015.60	\$10,156	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/63)	25.84	51.68	103.36	206.72	516.80	1,033.60	10,336	3.54	<sup>2</sup> 3.76
1 to 1½ years.....(12/1/63)	26.29	52.58	105.16	210.32	525.80	1,051.60	10,516	3.51	<sup>2</sup> 3.77
1½ to 2 years.....(6/1/64)	26.76	53.52	107.04	214.08	535.20	1,070.40	10,704	3.53	<sup>2</sup> 3.79
2 to 2½ years.....(12/1/64)	27.24	54.48	108.96	217.92	544.80	1,089.60	10,896	3.55	<sup>2</sup> 3.80
2½ to 3 years.....(6/1/65)	27.74	55.48	110.96	221.92	554.80	1,109.60	11,096	3.57	<sup>2</sup> 3.81
3 to 3½ years.....(12/1/65)	28.24	56.48	112.96	225.92	564.80	1,129.60	11,296	3.58	<sup>2</sup> 4.22
3½ to 4 years.....(6/1/66)	28.77	57.54	115.08	230.16	575.40	1,150.80	11,508	3.60	<sup>2</sup> 4.26
4 to 4½ years.....(12/1/66)	29.31	58.62	117.24	234.48	586.20	1,172.40	11,724	3.62	<sup>2</sup> 4.30
4½ to 5 years.....(6/1/67)	29.87	59.74	119.48	238.96	597.40	1,194.80	11,948	3.64	<sup>2</sup> 4.35
5 to 5½ years.....(12/1/67)	30.46	60.92	121.84	243.68	609.20	1,218.40	12,184	3.67	<sup>2</sup> 4.39
5½ to 6 years.....(6/1/68)	31.07	62.14	124.28	248.56	621.40	1,242.80	12,428	3.70	<sup>2</sup> 4.53
6 to 6½ years.....(12/1/68)	31.71	63.42	126.84	253.68	634.20	1,268.40	12,684	3.74	<sup>2</sup> 4.58
6½ to 7 years.....(6/1/69)	32.38	64.76	129.52	259.04	647.60	1,295.20	12,952	3.78	<sup>2</sup> 4.63
7 to 7½ years.....(12/1/69)	33.07	66.14	132.28	264.56	661.40	1,322.80	13,228	3.81	<sup>2</sup> 4.70
7½ to 8 years.....(6/1/70)	33.79	67.58	135.16	270.32	675.80	1,351.60	13,516	3.85	<sup>2</sup> 4.76
8 to 8½ years.....(12/1/70)	34.54	69.08	138.16	276.32	690.80	1,381.60	13,816	3.88	<sup>2</sup> 4.84
8½ to 9 years.....(6/1/71)	35.31	70.62	141.24	282.48	706.20	1,412.40	14,124	3.92	<sup>2</sup> 4.97
9 to 9½ years.....(12/1/71)	36.13	72.26	144.52	289.04	722.60	1,445.20	14,452	3.96	<sup>2</sup> 5.14
9½ to 10 years.....(6/1/72)	36.97	73.94	147.88	295.76	739.40	1,478.80	14,788	3.99	<sup>2</sup> 5.63
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(12/1/72)	38.01	76.02	152.04	304.08	760.20	1,520.40	15,204	<sup>5</sup> 4.08	-----

<sup>1</sup> Month, day, and year on which issues of April 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.63 percent.

TABLE 31

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1953

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (be- ginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (2/1/63)	\$25.45	\$50.90	\$101.80	\$203.60	\$509.00	\$1,018.00	\$10,180	0.00	<sup>2</sup> 3.75
½ to 1 year.....(8/1/63)	25.90	51.80	103.60	207.20	518.00	1,036.00	10,360	3.54	<sup>2</sup> 3.76
1 to 1½ years.....(2/1/64)	26.36	52.72	105.44	210.88	527.20	1,054.40	10,544	3.54	<sup>2</sup> 3.77
1½ to 2 years.....(8/1/64)	26.83	53.66	107.32	214.64	536.60	1,073.20	10,732	3.55	<sup>2</sup> 3.78
2 to 2½ years.....(2/1/65)	27.31	54.62	109.24	218.48	546.20	1,092.40	10,924	3.56	<sup>2</sup> 3.80
2½ to 3 years.....(8/1/65)	27.80	55.60	111.20	222.40	556.00	1,112.00	11,120	3.56	<sup>2</sup> 3.81
3 to 3½ years.....(2/1/66)	28.31	56.62	113.24	226.48	566.20	1,132.40	11,324	3.58	<sup>2</sup> 4.22
3½ to 4 years.....(8/1/66)	28.84	57.68	115.36	230.72	576.80	1,153.60	11,536	3.60	<sup>2</sup> 4.26
4 to 4½ years.....(2/1/67)	29.38	58.76	117.52	235.04	587.60	1,175.20	11,752	3.62	<sup>2</sup> 4.30
4½ to 5 years.....(8/1/67)	29.94	59.88	119.76	239.52	598.80	1,197.60	11,976	3.64	<sup>2</sup> 4.35
5 to 5½ years.....(2/1/68)	30.53	61.06	122.12	244.24	610.60	1,221.20	12,212	3.67	<sup>2</sup> 4.39
5½ to 6 years.....(8/1/68)	31.15	62.30	124.60	249.20	623.00	1,246.00	12,460	3.71	<sup>2</sup> 4.53
6 to 6½ years.....(2/1/69)	31.78	63.56	127.12	254.24	635.60	1,271.20	12,712	3.74	<sup>2</sup> 4.59
6½ to 7 years.....(8/1/69)	32.46	64.92	129.84	259.68	649.20	1,298.40	12,984	3.78	<sup>2</sup> 4.63
7 to 7½ years.....(2/1/70)	33.14	66.28	132.56	265.12	662.80	1,325.60	13,256	3.81	<sup>2</sup> 4.70
7½ to 8 years.....(8/1/70)	33.87	67.74	135.48	270.96	677.40	1,354.80	13,548	3.85	<sup>2</sup> 4.76
8 to 8½ years.....(2/1/71)	34.62	69.24	138.48	276.96	692.40	1,384.80	13,848	3.88	<sup>2</sup> 4.85
8½ to 9 years.....(8/1/71)	35.40	70.80	141.60	283.20	708.00	1,416.00	14,160	3.92	<sup>2</sup> 4.96
9 to 9½ years.....(2/1/72)	36.21	72.42	144.84	289.68	724.20	1,448.40	14,484	3.96	<sup>2</sup> 5.15
9½ to 10 years.....(8/1/72)	37.05	74.10	148.20	296.40	741.00	1,482.00	14,820	3.99	<sup>2</sup> 5.67
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(2/1/73)	38.10	76.20	152.40	304.80	762.00	1,524.00	15,240	<sup>5</sup> 4.08	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.64 percent.

**TABLE 32**  
**BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1953**

Issue price— Denomination—	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
Period after original maturity (be- ginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (6/1/63)	\$25.45	\$50.90	\$101.80	\$203.60	\$509.00	\$1,018.00	\$10,180	0.00	<sup>2</sup> 3.75
½ to 1 year.....(12/1/63)	25.90	51.80	103.60	207.20	518.00	1,036.00	10,360	3.54	<sup>2</sup> 3.76
1 to 1½ years.....(6/1/64)	26.36	52.72	105.44	210.88	527.20	1,054.40	10,544	3.54	<sup>2</sup> 3.77
1½ to 2 years.....(12/1/64)	26.83	53.66	107.32	214.64	536.60	1,073.20	10,732	3.55	<sup>2</sup> 3.78
2 to 2½ years.....(6/1/65)	27.31	54.62	109.24	218.48	546.20	1,092.40	10,924	3.56	<sup>2</sup> 3.80
2½ to 3 years.....(12/1/65)	27.80	55.60	111.20	222.40	556.00	1,112.00	11,120	3.56	<sup>2</sup> 3.81
3 to 3½ years.....(6/1/66)	28.32	56.64	113.28	226.56	566.40	1,132.80	11,328	3.59	<sup>2</sup> 3.84
3½ to 4 years.....(12/1/66)	28.85	57.70	115.40	230.80	577.00	1,154.00	11,540	3.61	<sup>2</sup> 3.88
4 to 4½ years.....(6/1/67)	29.40	58.80	117.60	235.20	588.00	1,176.00	11,760	3.64	<sup>2</sup> 3.92
4½ to 5 years.....(12/1/67)	29.96	59.92	119.84	239.68	599.20	1,198.40	11,984	3.66	<sup>2</sup> 3.97
5 to 5½ years.....(6/1/68)	30.56	61.12	122.24	244.48	611.20	1,222.40	12,224	3.69	<sup>2</sup> 4.01
5½ to 6 years.....(12/1/68)	31.19	62.38	124.76	249.52	623.80	1,247.60	12,476	3.73	<sup>2</sup> 4.05
6 to 6½ years.....(6/1/69)	31.83	63.66	127.32	254.64	636.60	1,273.20	12,732	3.76	<sup>2</sup> 4.09
6½ to 7 years.....(12/1/69)	32.51	65.02	130.04	260.08	650.20	1,300.40	13,004	3.80	<sup>2</sup> 4.13
7 to 7½ years.....(6/1/70)	33.19	66.38	132.76	265.52	663.80	1,327.60	13,276	3.83	<sup>2</sup> 4.17
7½ to 8 years.....(12/1/70)	33.93	67.86	135.72	271.44	678.60	1,357.20	13,572	3.87	<sup>2</sup> 4.21
8 to 8½ years.....(6/1/71)	34.68	69.36	138.72	277.44	693.60	1,387.20	13,872	3.91	<sup>2</sup> 4.25
8½ to 9 years.....(12/1/71)	35.47	70.94	141.88	283.76	709.40	1,418.80	14,188	3.94	<sup>2</sup> 4.29
9 to 9½ years.....(6/1/72)	36.28	72.56	145.12	290.24	725.60	1,451.20	14,512	3.98	<sup>2</sup> 4.33
9½ to 10 years.....(12/1/72)	37.13	74.26	148.52	297.04	742.60	1,485.20	14,852	4.02	<sup>2</sup> 4.37
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(6/1/73)	38.19	76.38	152.76	305.52	763.80	1,527.60	15,276	<sup>2</sup> 4.10	-----

<sup>1</sup> Month, day, and year on which issues of October 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.65 percent.

**TABLE 33**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1953, THROUGH MARCH 1, 1954**

Issue price— Denomination—	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
Period after original maturity (be- ginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (8/1/63)	\$25.52	\$51.04	\$102.08	\$204.16	\$510.40	\$1,020.80	\$10,208	0.00	<sup>2</sup> 3.75
½ to 1 year.....(2/1/64)	25.97	51.94	103.88	207.76	519.40	1,038.80	10,388	3.53	<sup>2</sup> 3.76
1 to 1½ years.....(8/1/64)	26.43	52.86	105.72	211.43	528.60	1,057.20	10,572	3.53	<sup>2</sup> 3.77
1½ to 2 years.....(2/1/65)	26.90	53.80	107.60	215.20	538.00	1,076.00	10,760	3.54	<sup>2</sup> 3.79
2 to 2½ years.....(8/1/65)	27.38	54.76	109.52	219.04	547.60	1,095.20	10,952	3.55	<sup>2</sup> 3.80
2½ to 3 years.....(2/1/66)	27.88	55.76	111.52	223.04	557.60	1,115.20	11,152	3.57	<sup>2</sup> 3.81
3 to 3½ years.....(8/1/66)	28.40	56.80	113.60	227.20	568.00	1,136.00	11,360	3.60	<sup>2</sup> 3.85
3½ to 4 years.....(2/1/67)	28.93	57.86	115.72	231.44	578.60	1,157.20	11,572	3.62	<sup>2</sup> 3.89
4 to 4½ years.....(8/1/67)	29.48	58.96	117.92	235.84	589.60	1,179.20	11,792	3.64	<sup>2</sup> 3.93
4½ to 5 years.....(2/1/68)	30.05	60.10	120.20	240.40	601.00	1,202.00	12,020	3.66	<sup>2</sup> 3.97
5 to 5½ years.....(8/1/68)	30.65	61.30	122.60	245.20	613.00	1,226.00	12,260	3.70	<sup>2</sup> 4.01
5½ to 6 years.....(2/1/69)	31.27	62.54	125.08	250.16	625.40	1,250.80	12,508	3.73	<sup>2</sup> 4.05
6 to 6½ years.....(8/1/69)	31.92	63.84	127.68	255.36	638.40	1,276.80	12,768	3.76	<sup>2</sup> 4.09
6½ to 7 years.....(2/1/70)	32.60	65.20	130.40	260.80	652.00	1,304.00	13,040	3.80	<sup>2</sup> 4.13
7 to 7½ years.....(8/1/70)	33.30	66.60	133.20	266.40	666.00	1,332.00	13,320	3.84	<sup>2</sup> 4.17
7½ to 8 years.....(2/1/71)	34.02	68.04	136.08	272.16	680.40	1,360.80	13,608	3.87	<sup>2</sup> 4.21
8 to 8½ years.....(8/1/71)	34.77	69.54	139.08	278.16	695.40	1,390.80	13,908	3.90	<sup>2</sup> 4.25
8½ to 9 years.....(2/1/72)	35.56	71.12	142.24	284.48	711.20	1,422.40	14,224	3.94	<sup>2</sup> 4.29
9 to 9½ years.....(8/1/72)	36.38	72.76	145.52	291.04	727.60	1,455.20	14,552	3.98	<sup>2</sup> 4.33
9½ to 10 years.....(2/1/73)	37.23	74.46	148.92	297.84	744.60	1,489.20	14,892	4.02	<sup>2</sup> 4.37
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(8/1/73)	38.30	76.60	153.20	306.40	766.00	1,532.00	15,320	<sup>2</sup> 4.10	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1953, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.66 percent.



TABLE 34

BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1954

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 6 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (12/1/63)	\$25.52	\$51.04	\$102.08	\$204.16	\$510.40	\$1,020.80	\$10,208	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/64)	25.97	51.94	103.88	207.76	519.40	1,038.80	10,388	3.53	<sup>2</sup> 3.76
1 to 1½ years.....(12/1/64)	26.43	52.86	105.72	211.44	528.60	1,057.20	10,572	3.53	<sup>2</sup> 3.77
1½ to 2 years.....(6/1/65)	26.90	53.80	107.60	215.20	538.00	1,076.00	10,760	3.54	<sup>2</sup> 3.79
2 to 2½ years.....(12/1/65)	27.38	54.76	109.52	219.04	547.60	1,095.20	10,952	3.55	<sup>2</sup> 4.20
2½ to 3 years.....(6/1/66)	27.89	55.78	111.56	223.12	557.80	1,115.60	11,156	3.58	<sup>2</sup> 4.23
3 to 3½ years.....(12/1/66)	28.41	56.82	113.64	227.28	568.20	1,136.40	11,364	3.61	<sup>2</sup> 4.27
3½ to 4 years.....(6/1/67)	28.94	57.88	115.76	231.52	578.80	1,157.60	11,576	3.63	<sup>2</sup> 4.31
4 to 4½ years.....(12/1/67)	29.50	59.00	118.00	236.00	590.00	1,180.00	11,800	3.66	<sup>2</sup> 4.35
4½ to 5 years.....(6/1/68)	30.08	60.16	120.32	240.64	601.60	1,203.20	12,032	3.69	<sup>2</sup> 4.48
5 to 5½ years.....(12/1/68)	30.69	61.38	122.76	245.52	613.80	1,227.60	12,276	3.72	<sup>2</sup> 4.53
5½ to 6 years.....(6/1/69)	31.31	62.62	125.24	250.48	626.20	1,252.40	12,524	3.75	<sup>2</sup> 4.58
6 to 6½ years.....(12/1/69)	31.96	63.92	127.84	255.68	639.20	1,278.40	12,784	3.79	<sup>2</sup> 4.64
6½ to 7 years.....(6/1/70)	32.65	65.30	130.60	261.20	653.00	1,306.00	13,060	3.83	<sup>2</sup> 4.68
7 to 7½ years.....(12/1/70)	33.35	66.70	133.40	266.80	667.00	1,334.00	13,340	3.86	<sup>2</sup> 4.75
7½ to 8 years.....(6/1/71)	34.08	68.16	136.32	272.64	681.60	1,363.20	13,632	3.89	<sup>2</sup> 4.82
8 to 8½ years.....(12/1/71)	34.84	69.68	139.36	278.72	696.80	1,393.60	13,936	3.93	<sup>2</sup> 4.91
8½ to 9 years.....(6/1/72)	35.63	71.26	142.52	285.04	712.60	1,425.20	14,252	3.96	<sup>2</sup> 5.04
9 to 9½ years.....(12/1/72)	36.45	72.90	145.80	291.60	729.00	1,458.00	14,580	4.00	<sup>2</sup> 5.25
9½ to 10 years.....(6/1/73)	37.30	74.60	149.20	298.40	746.00	1,492.00	14,920	4.04	<sup>2</sup> 5.84
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(12/1/73)	38.39	76.78	153.56	307.12	767.80	1,535.60	15,356	<sup>5</sup> 4.13	-----

<sup>1</sup> Month, day, and year on which issues of April 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.68 percent.

TABLE 35

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1954

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 6 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (2/1/64)	\$25.58	\$51.16	\$102.32	\$204.64	\$511.60	\$1,023.20	\$10,232	0.00	<sup>2</sup> 3.75
½ to 1 year.....(8/1/64)	26.03	52.06	104.12	208.24	520.60	1,041.20	10,412	3.52	<sup>2</sup> 3.76
1 to 1½ years.....(2/1/65)	26.49	52.98	105.96	211.92	529.80	1,059.60	10,596	3.53	<sup>2</sup> 3.77
1½ to 2 years.....(8/1/65)	26.96	53.92	107.84	215.68	539.20	1,078.40	10,784	3.53	<sup>2</sup> 3.79
2 to 2½ years.....(2/1/66)	27.45	54.90	109.80	219.60	549.00	1,098.00	10,980	3.56	<sup>2</sup> 4.20
2½ to 3 years.....(8/1/66)	27.95	55.90	111.80	223.60	559.00	1,118.00	11,180	3.58	<sup>2</sup> 4.24
3 to 3½ years.....(2/1/67)	28.47	56.94	113.88	227.76	569.40	1,138.80	11,388	3.60	<sup>2</sup> 4.27
3½ to 4 years.....(8/1/67)	29.01	58.02	116.04	232.08	580.20	1,160.40	11,604	3.63	<sup>2</sup> 4.31
4 to 4½ years.....(2/1/68)	29.57	59.14	118.28	236.56	591.40	1,182.80	11,828	3.66	<sup>2</sup> 4.35
4½ to 5 years.....(8/1/68)	30.15	60.30	120.60	241.20	603.00	1,206.00	12,060	3.69	<sup>2</sup> 4.49
5 to 5½ years.....(2/1/69)	30.76	61.52	123.04	246.08	615.20	1,230.40	12,304	3.72	<sup>2</sup> 4.53
5½ to 6 years.....(8/1/69)	31.39	62.78	125.56	251.12	627.80	1,255.60	12,556	3.76	<sup>2</sup> 4.58
6 to 6½ years.....(2/1/70)	32.04	64.08	128.16	256.32	640.80	1,281.60	12,816	3.79	<sup>2</sup> 4.64
6½ to 7 years.....(8/1/70)	32.72	65.44	130.88	261.76	654.40	1,308.80	13,088	3.82	<sup>2</sup> 4.69
7 to 7½ years.....(2/1/71)	33.42	66.84	133.68	267.36	668.40	1,336.80	13,368	3.86	<sup>2</sup> 4.76
7½ to 8 years.....(8/1/71)	34.16	68.32	136.64	273.28	683.20	1,366.40	13,664	3.89	<sup>2</sup> 4.83
8 to 8½ years.....(2/1/72)	34.92	69.84	139.68	279.36	698.40	1,396.80	13,968	3.93	<sup>2</sup> 4.93
8½ to 9 years.....(8/1/72)	35.71	71.42	142.84	285.68	714.20	1,428.40	14,284	3.96	<sup>2</sup> 5.06
9 to 9½ years.....(2/1/73)	36.53	73.06	146.12	292.24	730.60	1,461.20	14,612	4.00	<sup>2</sup> 5.30
9½ to 10 years.....(8/1/73)	37.39	74.78	149.56	299.12	747.80	1,495.60	14,956	4.04	<sup>2</sup> 5.88
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(2/1/74)	38.49	76.98	153.96	307.92	769.80	1,539.60	15,396	<sup>5</sup> 4.13	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.69 percent.



TABLE 36

## BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1951

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/64)	\$25.58	\$51.16	\$102.32	\$204.64	\$511.60	\$1,023.20	\$10,232	0.00	<sup>2</sup> 3.75
½ to 1 year..... <sup>2</sup> (12/1/64)	26.03	52.06	104.12	208.24	520.60	1,041.20	10,412	3.52	<sup>3</sup> 3.76
1 to 1½ years..... <sup>3</sup> (6/1/65)	26.49	52.98	105.96	211.92	529.80	1,059.60	10,596	3.53	<sup>4</sup> 3.77
1½ to 2 years..... <sup>4</sup> (12/1/65)	26.96	53.92	107.84	215.68	539.20	1,078.40	10,784	3.53	<sup>5</sup> 3.79
2 to 2½ years..... <sup>5</sup> (6/1/66)	27.46	54.92	109.84	219.68	549.20	1,098.40	10,984	3.58	<sup>6</sup> 3.82
2½ to 3 years..... <sup>6</sup> (12/1/66)	27.96	55.92	111.84	223.68	559.20	1,118.40	11,184	3.59	<sup>7</sup> 3.86
3 to 3½ years..... <sup>7</sup> (6/1/67)	28.48	56.96	113.92	227.84	569.60	1,139.20	11,392	3.61	<sup>8</sup> 3.90
3½ to 4 years..... <sup>8</sup> (12/1/67)	29.03	58.06	116.12	232.24	580.60	1,161.20	11,612	3.65	<sup>9</sup> 3.93
4 to 4½ years..... <sup>9</sup> (6/1/68)	29.60	59.20	118.40	236.80	592.00	1,184.00	11,840	3.68	4.07
4½ to 5 years..... <sup>10</sup> (12/1/68)	30.19	60.38	120.76	241.52	603.80	1,207.60	12,076	3.72	4.51
5 to 5½ years..... <sup>11</sup> (6/1/69)	30.80	61.60	123.20	246.40	616.00	1,232.00	12,320	3.75	4.56
5½ to 6 years..... <sup>12</sup> (12/1/69)	31.43	62.86	125.72	251.44	628.60	1,257.20	12,572	3.78	4.61
6 to 6½ years..... <sup>13</sup> (6/1/70)	32.09	64.18	128.36	256.72	641.80	1,283.60	12,836	3.81	4.66
6½ to 7 years..... <sup>14</sup> (12/1/70)	32.77	65.54	131.08	262.16	655.40	1,310.80	13,108	3.85	4.72
7 to 7½ years..... <sup>15</sup> (6/1/71)	33.48	66.96	133.92	267.84	669.60	1,339.20	13,392	3.88	4.78
7½ to 8 years..... <sup>16</sup> (12/1/71)	34.22	68.44	136.88	273.76	684.40	1,368.80	13,688	3.92	4.85
8 to 8½ years..... <sup>17</sup> (6/1/72)	34.98	69.96	139.92	279.84	699.60	1,399.20	13,992	3.95	4.96
8½ to 9 years..... <sup>18</sup> (12/1/72)	35.78	71.56	143.12	286.24	715.60	1,431.20	14,312	3.99	5.09
9 to 9½ years..... <sup>19</sup> (6/1/73)	36.60	73.20	146.40	292.80	732.00	1,464.00	14,640	4.02	5.31
9½ to 10 years..... <sup>20</sup> (12/1/73)	37.47	74.94	149.88	299.76	749.40	1,498.80	14,988	4.06	5.92
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>21</sup> .....(6/1/74)	38.58	77.16	154.32	308.64	771.60	1,543.20	15,432	<sup>22</sup> 4.15	-----

<sup>1</sup> Month, day, and year on which issues of October 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 year, and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.70 percent.

TABLE 37

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1951, THROUGH MARCH 1, 1955

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
EXTENDED MATURITY PERIOD									
First ½ year ----- <sup>1</sup> (8/1/64)	\$25.64	\$51.28	\$102.56	\$205.12	\$512.80	\$1,025.60	\$10,256	Percent 0.00	Percent 3.75
½ to 1 year ----- <sup>2</sup> (2/1/65)	26.09	52.18	104.36	208.72	521.80	1,043.60	10,436	3.51	3.76
1 to 1½ years ----- <sup>3</sup> (8/1/65)	26.55	53.10	106.20	212.40	531.00	1,062.00	10,620	3.52	3.78
1½ to 2 years ----- <sup>4</sup> (2/1/66)	27.03	54.06	108.12	216.24	540.60	1,081.20	10,812	3.55	3.79
2 to 2½ years ----- <sup>5</sup> (8/1/66)	27.52	55.04	110.08	220.16	550.40	1,100.80	11,008	3.57	3.82
2½ to 3 years ----- <sup>6</sup> (2/1/67)	28.03	56.06	112.12	224.24	560.60	1,121.20	11,212	3.60	3.86
3 to 3½ years ----- <sup>7</sup> (8/1/67)	28.55	57.10	114.20	228.40	571.00	1,142.00	11,420	3.62	3.90
3½ to 4 years ----- <sup>8</sup> (2/1/68)	29.09	58.18	116.36	232.72	581.80	1,163.60	11,636	3.64	3.93
4 to 4½ years ----- <sup>9</sup> (8/1/68)	29.67	59.34	118.68	237.36	593.40	1,186.80	11,868	3.68	4.46
4½ to 5 years ----- <sup>10</sup> (2/1/69)	30.26	60.52	121.04	242.08	605.20	1,210.40	12,104	3.72	4.51
5 to 5½ years ----- <sup>11</sup> (8/1/69)	30.87	61.74	123.48	246.96	617.40	1,234.80	12,348	3.75	4.56
5½ to 6 years ----- <sup>12</sup> (2/1/70)	31.51	63.02	126.04	252.08	630.20	1,260.40	12,604	3.78	4.60
6 to 6½ years ----- <sup>13</sup> (8/1/70)	32.16	64.32	128.64	257.28	643.20	1,286.40	12,864	3.81	4.66
6½ to 7 years ----- <sup>14</sup> (2/1/71)	32.85	65.70	131.40	262.80	657.00	1,314.00	13,140	3.85	4.72
7 to 7½ years ----- <sup>15</sup> (8/1/71)	33.56	67.12	134.24	268.48	671.20	1,342.40	13,424	3.88	4.78
7½ to 8 years ----- <sup>16</sup> (2/1/72)	34.30	68.60	137.20	274.40	686.00	1,372.00	13,720	3.92	4.85
8 to 8½ years ----- <sup>17</sup> (8/1/72)	35.06	70.12	140.24	280.48	701.20	1,402.40	14,024	3.95	4.96
8½ to 9 years ----- <sup>18</sup> (2/1/73)	35.87	71.74	143.48	286.96	717.40	1,434.80	14,348	3.99	5.07
9 to 9½ years ----- <sup>19</sup> (8/1/73)	36.69	73.38	146.76	293.52	733.80	1,467.60	14,676	4.02	5.33
9½ to 10 years ----- <sup>20</sup> (2/1/74)	37.55	75.10	150.20	300.40	751.00	1,502.00	15,020	4.06	5.97
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>21</sup> .....(8/1/74)	38.67	77.34	154.68	309.36	773.40	1,546.80	15,468	4.15	

<sup>1</sup> Month, day, and year on which issues of December 1, 1954, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.71 percent.

**TABLE 38**  
**BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1955**

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (beginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (12/1/64)	\$25.64	\$51.28	\$102.56	\$205.12	\$512.80	\$1,025.60	\$10,256	0.00	<sup>2</sup> 3.75
½ to 1 year.....(6/1/65)	26.09	52.18	104.36	208.72	521.80	1,043.60	10,436	3.51	<sup>2</sup> 3.76
1 to 1½ years.....(12/1/65)	26.55	53.10	106.20	212.40	531.00	1,062.00	10,620	3.52	<sup>3</sup> 4.18
1½ to 2 years.....(6/1/66)	27.04	54.08	108.16	216.32	540.80	1,081.60	10,816	3.58	<sup>3</sup> 4.21
2 to 2½ years.....(12/1/66)	27.53	55.06	110.12	220.24	550.60	1,101.20	11,012	3.59	<sup>3</sup> 4.24
2½ to 3 years.....(6/1/67)	28.04	56.08	112.16	224.32	560.80	1,121.60	11,216	3.61	<sup>3</sup> 4.28
3 to 3½ years.....(12/1/67)	28.57	57.11	114.28	228.56	571.40	1,142.80	11,428	3.64	<sup>3</sup> 4.31
3½ to 4 years.....(6/1/68)	29.12	58.24	116.48	232.96	582.40	1,164.80	11,648	3.67	4.45
4 to 4½ years.....(12/1/68)	29.70	59.40	118.80	237.60	594.00	1,188.00	11,880	3.71	4.49
4½ to 5 years.....(6/1/69)	30.29	60.58	121.16	242.32	605.80	1,211.60	12,116	3.74	4.54
5 to 5½ years.....(12/1/69)	30.91	61.82	123.64	247.28	618.20	1,236.40	12,364	3.77	4.58
5½ to 6 years.....(6/1/70)	31.55	63.10	126.20	252.40	631.00	1,262.00	12,620	3.81	4.63
6 to 6½ years.....(12/1/70)	32.21	64.42	128.84	257.68	644.20	1,288.40	12,884	3.84	4.69
6½ to 7 years.....(6/1/71)	32.91	65.82	131.64	263.28	658.20	1,316.40	13,164	3.88	4.74
7 to 7½ years.....(12/1/71)	33.62	67.24	134.48	268.96	672.40	1,344.80	13,448	3.91	4.81
7½ to 8 years.....(6/1/72)	34.36	68.72	137.44	274.88	687.20	1,374.40	13,744	3.94	4.89
8 to 8½ years.....(12/1/72)	35.13	70.26	140.52	281.04	702.60	1,405.20	14,052	3.98	4.99
8½ to 9 years.....(6/1/73)	35.94	71.88	143.76	287.52	718.80	1,437.60	14,376	4.01	5.12
9 to 9½ years.....(12/1/73)	36.76	73.52	147.04	294.08	735.20	1,470.40	14,704	4.04	5.40
9½ to 10 years.....(6/1/74)	37.62	75.24	150.48	300.96	752.40	1,504.80	15,048	4.08	6.11
<b>EXTENDED MATURITY</b> <b>VALUE (10 years from</b> <b>original maturity</b> <b>date)<sup>4</sup>.....(12/1/74)</b>	<b>38.77</b>	<b>77.54</b>	<b>155.08</b>	<b>310.16</b>	<b>775.40</b>	<b>1,550.80</b>	<b>15,508</b>	<b>5 4.18</b>	-----

<sup>1</sup> Month, day, and year on which issues of April 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.73 percent.

**TABLE 39**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1955**

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (beginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (2/1/65)	\$25.71	\$51.42	\$102.84	\$205.68	\$514.20	\$1,028.40	\$10,284	0.00	<sup>2</sup> 3.75
½ to 1 year.....(8/1/65)	26.16	52.32	104.64	209.28	523.20	1,046.40	10,464	3.50	<sup>2</sup> 3.76
1 to 1½ years.....(2/1/66)	26.63	53.26	106.52	213.04	532.60	1,065.20	10,652	3.55	<sup>3</sup> 4.17
1½ to 2 years.....(8/1/66)	27.11	54.22	108.44	216.88	542.20	1,084.40	10,844	3.57	<sup>3</sup> 4.21
2 to 2½ years.....(2/1/67)	27.61	55.22	110.44	220.88	552.20	1,104.40	11,044	3.60	<sup>3</sup> 4.28
2½ to 3 years.....(8/1/67)	28.12	56.24	112.48	224.96	562.40	1,124.80	11,248	3.62	<sup>3</sup> 4.24
3 to 3½ years.....(2/1/68)	28.65	57.30	114.60	229.20	573.00	1,146.00	11,460	3.64	<sup>3</sup> 4.31
3½ to 4 years.....(8/1/68)	29.20	58.40	116.80	233.60	584.00	1,168.00	11,680	3.67	4.45
4 to 4½ years.....(2/1/69)	29.78	59.56	119.12	238.24	595.60	1,191.20	11,912	3.71	4.49
4½ to 5 years.....(8/1/69)	30.37	60.74	121.48	242.96	607.40	1,214.80	12,148	3.74	4.54
5 to 5½ years.....(2/1/70)	30.99	61.98	123.96	247.92	619.80	1,239.60	12,396	3.77	4.58
5½ to 6 years.....(8/1/70)	31.63	63.26	126.52	253.04	632.60	1,265.20	12,652	3.80	4.63
6 to 6½ years.....(2/1/71)	32.30	64.60	129.20	258.40	646.00	1,292.00	12,920	3.84	4.68
6½ to 7 years.....(8/1/71)	33.00	66.00	132.00	264.00	660.00	1,320.00	13,200	3.88	4.73
7 to 7½ years.....(2/1/72)	33.71	67.42	134.84	269.68	674.20	1,348.40	13,484	3.91	4.80
7½ to 8 years.....(8/1/72)	34.46	68.92	137.84	275.68	689.20	1,378.40	13,784	3.94	4.88
8 to 8½ years.....(2/1/73)	35.23	70.46	140.92	281.84	704.60	1,409.20	14,092	3.98	4.98
8½ to 9 years.....(8/1/73)	36.03	72.06	144.12	288.24	720.60	1,441.20	14,412	4.01	5.12
9 to 9½ years.....(2/1/74)	36.86	73.72	147.44	294.88	737.20	1,474.40	14,744	4.04	5.38
9½ to 10 years.....(8/1/74)	37.72	75.44	150.88	301.76	754.40	1,508.80	15,088	4.08	6.10
<b>EXTENDED MATURITY</b> <b>VALUE (10 years from</b> <b>original maturity</b> <b>date)<sup>4</sup>.....(2/1/75)</b>	<b>38.87</b>	<b>77.74</b>	<b>155.48</b>	<b>310.96</b>	<b>777.40</b>	<b>1,554.80</b>	<b>15,548</b>	<b>5 4.18</b>	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.

<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.74 percent.

TABLE 40

## BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1955

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (6/1/65)	\$25.71	\$51.42	\$102.84	\$205.68	\$514.20	\$1,028.40	\$10,284	0.00	<sup>2</sup> 3.75
½ to 1 year.....(12/1/65)	26.16	52.32	104.64	209.28	523.20	1,046.40	10,464	3.50	<sup>2</sup> 4.16
1 to 1½ years.....(6/1/66)	26.64	53.28	106.56	213.12	532.80	1,065.60	10,656	3.59	<sup>2</sup> 4.19
1½ to 2 years.....(12/1/66)	27.12	54.24	108.48	216.96	542.40	1,084.80	10,848	3.59	<sup>2</sup> 4.23
2 to 2½ years.....(6/1/67)	27.62	55.24	110.48	220.96	552.40	1,104.80	11,048	3.62	<sup>2</sup> 4.26
2½ to 3 years.....(12/1/67)	28.14	56.28	112.56	225.12	562.80	1,125.60	11,256	3.65	<sup>2</sup> 4.29
3 to 3½ years.....(6/1/68)	28.68	57.36	114.72	229.44	573.60	1,147.20	11,472	3.67	<sup>2</sup> 4.43
3½ to 4 years.....(12/1/68)	29.23	58.46	116.92	233.84	584.60	1,169.20	11,692	3.70	<sup>2</sup> 4.47
4 to 4½ years.....(6/1/69)	29.81	59.62	119.24	238.48	596.20	1,192.40	11,924	3.73	<sup>2</sup> 4.52
4½ to 5 years.....(12/1/69)	30.41	60.82	121.64	243.28	608.20	1,216.40	12,164	3.77	<sup>2</sup> 4.56
5 to 5½ years.....(6/1/70)	31.03	62.06	124.12	248.24	620.60	1,241.20	12,412	3.80	<sup>2</sup> 4.61
5½ to 6 years.....(12/1/70)	31.68	63.36	126.72	253.44	633.60	1,267.20	12,672	3.83	<sup>2</sup> 4.66
6 to 6½ years.....(6/1/71)	32.36	64.72	129.44	258.88	647.20	1,294.40	12,944	3.87	<sup>2</sup> 4.70
6½ to 7 years.....(12/1/71)	33.05	66.10	132.20	264.40	661.00	1,322.00	13,220	3.90	<sup>2</sup> 4.76
7 to 7½ years.....(6/1/72)	33.77	67.54	135.08	270.16	675.40	1,350.80	13,508	3.93	<sup>2</sup> 4.83
7½ to 8 years.....(12/1/72)	34.52	69.04	138.08	276.16	690.40	1,380.80	13,808	3.97	<sup>2</sup> 4.91
8 to 8½ years.....(6/1/73)	35.30	70.60	141.20	282.40	706.00	1,412.00	14,120	4.00	<sup>2</sup> 5.01
8½ to 9 years.....(12/1/73)	36.10	72.20	144.40	288.80	722.00	1,444.00	14,440	4.03	<sup>2</sup> 5.17
9 to 9½ years.....(6/1/74)	36.93	73.86	147.72	295.44	738.60	1,477.20	14,772	4.06	<sup>2</sup> 5.45
9½ to 10 years.....(12/1/74)	37.80	75.60	151.20	302.40	756.00	1,512.00	15,120	4.10	<sup>2</sup> 6.19
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(6/1/75)	38.97	77.94	155.88	311.76	779.40	1,558.80	15,588	<sup>3</sup> 4.20	-----

<sup>1</sup> Month, day, and year on which issues of October 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.75 percent.

TABLE 41

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1955, THROUGH MARCH 1, 1956

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 9 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (8/1/65)	\$25.77	\$51.54	\$103.08	\$206.16	\$515.40	\$1,030.80	\$10,308	0.00	<sup>2</sup> 3.75
½ to 1 year.....(2/1/66)	26.22	52.44	104.88	209.76	524.40	1,048.80	10,488	3.49	<sup>2</sup> 4.17
1 to 1½ years.....(8/1/66)	26.70	53.40	106.80	213.60	534.00	1,068.00	10,680	3.58	<sup>2</sup> 4.19
1½ to 2 years.....(2/1/67)	27.18	54.36	108.72	217.44	543.60	1,087.20	10,872	3.58	<sup>2</sup> 4.23
2 to 2½ years.....(8/1/67)	27.68	55.36	110.72	221.44	553.60	1,107.20	11,072	3.61	<sup>2</sup> 4.26
2½ to 3 years.....(2/1/68)	28.20	56.40	112.80	225.60	564.00	1,128.00	11,280	3.64	<sup>2</sup> 4.30
3 to 3½ years.....(8/1/68)	28.74	57.48	114.96	229.92	574.80	1,149.60	11,496	3.67	<sup>2</sup> 4.43
3½ to 4 years.....(2/1/69)	29.30	58.60	117.20	234.40	586.00	1,172.00	11,720	3.70	<sup>2</sup> 4.47
4 to 4½ years.....(8/1/69)	29.88	59.76	119.52	239.04	597.60	1,195.20	11,952	3.73	<sup>2</sup> 4.52
4½ to 5 years.....(2/1/70)	30.48	60.96	121.92	243.84	609.60	1,219.20	12,192	3.77	<sup>2</sup> 4.56
5 to 5½ years.....(8/1/70)	31.11	62.22	124.44	248.88	622.20	1,244.40	12,444	3.80	<sup>2</sup> 4.60
5½ to 6 years.....(2/1/71)	31.76	63.52	127.04	254.08	635.20	1,270.40	12,704	3.84	<sup>2</sup> 4.65
6 to 6½ years.....(8/1/71)	32.43	64.86	129.72	259.44	648.60	1,297.20	12,972	3.87	<sup>2</sup> 4.70
6½ to 7 years.....(2/1/72)	33.12	66.24	132.48	264.96	662.40	1,324.80	13,248	3.90	<sup>2</sup> 4.77
7 to 7½ years.....(8/1/72)	33.85	67.70	135.40	270.80	677.00	1,354.00	13,540	3.93	<sup>2</sup> 4.83
7½ to 8 years.....(2/1/73)	34.60	69.20	138.40	276.80	692.00	1,384.00	13,840	3.97	<sup>2</sup> 4.91
8 to 8½ years.....(8/1/73)	35.38	70.76	141.52	283.04	707.60	1,415.20	14,152	4.00	<sup>2</sup> 5.01
8½ to 9 years.....(2/1/74)	36.18	72.36	144.72	289.44	723.60	1,447.20	14,472	4.03	<sup>2</sup> 5.17
9 to 9½ years.....(8/1/74)	37.02	74.04	148.08	296.16	740.40	1,480.80	14,808	4.07	<sup>2</sup> 5.44
9½ to 10 years.....(2/1/75)	37.89	75.78	151.56	303.12	757.80	1,515.60	15,156	4.10	<sup>2</sup> 6.18
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>4</sup> .....(8/1/75)	39.06	78.12	156.24	312.48	781.20	1,562.40	15,624	<sup>3</sup> 4.20	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1955, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the December 1, 1965, revision.<sup>3</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>4</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>5</sup> Yield on purchase price from issue date to extended maturity date is 3.77 percent.

TABLE 42

BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1956

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (beginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
First ½ year..... <sup>1</sup> (12/1/65)	\$25.77	\$51.54	\$103.08	\$206.16	\$515.40	\$1,030.80	\$10,308	Percent 0.00	Percent 2 4.15
½ to 1 year.....(6/1/66)	26.30	52.60	105.20	210.40	526.00	1,052.00	10,520	4.11	2 4.15
1 to 1½ years.....(12/1/66)	26.85	53.70	107.40	214.80	537.00	1,074.00	10,740	4.15	2 4.15
1½ to 2 years.....(6/1/67)	27.41	54.82	109.64	219.28	548.20	1,096.40	10,964	4.16	2 4.15
2 to 2½ years.....(12/1/67)	27.98	55.96	111.92	223.84	559.60	1,119.20	11,192	4.16	2 4.15
2½ to 3 years.....(6/1/68)	28.56	57.12	114.24	228.48	571.20	1,142.40	11,424	4.15	4.25
3 to 3½ years.....(12/1/68)	29.15	58.30	116.60	233.20	583.00	1,166.00	11,660	4.15	4.26
3½ to 4 years.....(6/1/69)	29.75	59.50	119.00	238.00	595.00	1,190.00	11,900	4.15	4.27
4 to 4½ years.....(12/1/69)	30.37	60.74	121.48	242.96	607.40	1,214.80	12,148	4.15	4.28
4½ to 5 years.....(6/1/70)	31.00	62.00	124.00	248.00	620.00	1,240.00	12,400	4.15	4.29
5 to 5½ years.....(12/1/70)	31.65	63.30	126.60	253.20	633.00	1,266.00	12,660	4.15	4.30
5½ to 6 years.....(6/1/71)	32.30	64.60	129.20	258.40	646.00	1,292.00	12,920	4.15	4.32
6 to 6½ years.....(12/1/71)	32.97	65.94	131.88	263.76	659.40	1,318.80	13,188	4.15	4.34
6½ to 7 years.....(6/1/72)	33.66	67.32	134.64	269.28	673.20	1,346.40	13,464	4.15	4.36
7 to 7½ years.....(12/1/72)	34.35	68.70	137.40	274.80	687.00	1,374.00	13,740	4.15	4.41
7½ to 8 years.....(6/1/73)	35.07	70.14	140.28	280.56	701.40	1,402.80	14,028	4.15	4.45
8 to 8½ years.....(12/1/73)	35.80	71.60	143.20	286.40	716.00	1,432.00	14,320	4.15	4.52
8½ to 9 years.....(6/1/74)	36.54	73.08	146.16	292.32	730.80	1,461.60	14,616	4.15	4.65
9 to 9½ years.....(12/1/74)	37.30	74.60	149.20	298.40	746.00	1,492.00	14,920	4.15	4.90
9½ to 10 years.....(6/1/75)	38.07	76.14	152.28	304.56	761.40	1,522.80	15,228	4.15	5.67
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(12/1/75)	39.15	78.30	156.60	313.20	783.00	1,566.00	15,660	4 4.23	-----

<sup>1</sup> Month, day, and year on which issues of April 1, 1956, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 3.79 percent.

TABLE 43

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1956

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (beginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD								
First ½ year..... <sup>1</sup> (2/1/66)	\$25.83	\$51.66	\$103.32	\$206.64	\$516.60	\$1,033.20	\$10,332	Percent 0.00	Percent 2 4.15
½ to 1 year.....(8/1/66)	26.37	52.74	105.48	210.96	527.40	1,054.80	10,548	4.18	2 4.15
1 to 1½ years.....(2/1/67)	26.91	53.82	107.64	215.28	538.20	1,076.40	10,764	4.14	2 4.15
1½ to 2 years.....(8/1/67)	27.47	54.94	109.88	219.76	549.40	1,098.80	10,988	4.15	2 4.15
2 to 2½ years.....(2/1/68)	28.04	56.08	112.16	224.32	560.80	1,121.60	11,216	4.15	2 4.15
2½ to 3 years.....(8/1/68)	28.62	57.24	114.48	228.96	572.40	1,144.80	11,448	4.15	4.25
3 to 3½ years.....(2/1/69)	29.22	58.44	116.88	233.76	584.40	1,168.80	11,688	4.15	4.26
3½ to 4 years.....(8/1/69)	29.82	59.64	119.28	238.56	596.40	1,192.80	11,928	4.15	4.27
4 to 4½ years.....(2/1/70)	30.44	60.88	121.76	243.52	608.80	1,217.60	12,176	4.15	4.28
4½ to 5 years.....(8/1/70)	31.07	62.14	124.28	248.56	621.40	1,242.80	12,428	4.15	4.29
5 to 5½ years.....(2/1/71)	31.72	63.44	126.88	253.76	634.40	1,268.80	12,688	4.15	4.30
5½ to 6 years.....(8/1/71)	32.38	64.76	129.52	259.04	647.60	1,295.20	12,952	4.15	4.32
6 to 6½ years.....(2/1/72)	33.05	66.10	132.20	264.40	661.00	1,322.00	13,220	4.15	4.34
6½ to 7 years.....(8/1/72)	33.73	67.46	134.92	269.84	674.60	1,349.20	13,492	4.15	4.37
7 to 7½ years.....(2/1/73)	34.43	68.86	137.72	275.44	688.60	1,377.20	13,772	4.15	4.41
7½ to 8 years.....(8/1/73)	35.15	70.30	140.60	281.20	703.00	1,406.00	14,060	4.15	4.45
8 to 8½ years.....(2/1/74)	35.88	71.76	143.52	287.04	717.60	1,435.20	14,352	4.15	4.53
8½ to 9 years.....(8/1/74)	36.62	73.24	146.48	292.96	732.40	1,464.80	14,648	4.15	4.66
9 to 9½ years.....(2/1/75)	37.38	74.76	149.52	299.04	747.60	1,495.20	14,952	4.15	4.92
9½ to 10 years.....(8/1/75)	38.16	76.32	152.64	305.28	763.20	1,526.40	15,264	4.15	5.66
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(2/1/76)	39.24	78.48	156.96	313.92	784.80	1,569.60	15,696	4 4.23	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1956, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 3.79 percent.



TABLE 41

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1956, THROUGH JANUARY 1, 1957

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield		
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity	
Period after original maturity (beginning 9 years 8 months after issue date)	EXTENDED MATURITY PERIOD									
								Percent	Percent	
First ½ year.....	(1/8/166)	\$25.97	\$51.94	\$103.88	\$207.76	\$519.40	\$1,038.80	\$10,388	0.00	4.15
½ to 1 year.....	(2/1/67)	26.51	53.02	106.04	212.08	530.20	1,060.40	10,604	4.16	4.15
1 to 1½ years.....	(3/1/67)	27.06	54.12	108.24	216.48	541.20	1,082.40	10,824	4.15	4.15
1½ to 2 years.....	(4/1/68)	27.62	55.24	110.48	220.96	552.40	1,104.80	11,048	4.15	4.15
2 to 2½ years.....	(5/1/68)	28.19	56.38	112.76	225.52	563.80	1,127.60	11,276	4.15	4.25
2½ to 3 years.....	(6/1/69)	28.78	57.56	115.12	230.24	575.60	1,151.20	11,512	4.15	4.26
3 to 3½ years.....	(7/1/69)	29.38	58.76	117.52	235.04	587.60	1,175.20	11,752	4.15	4.26
3½ to 4 years.....	(8/1/70)	29.99	59.98	119.96	239.92	599.80	1,199.60	11,996	4.15	4.27
4 to 4½ years.....	(9/1/70)	30.61	61.22	122.44	244.88	612.20	1,224.40	12,244	4.15	4.28
4½ to 5 years.....	(10/1/71)	31.24	62.48	124.96	249.92	624.80	1,249.60	12,496	4.15	4.30
5 to 5½ years.....	(11/1/71)	31.89	63.78	127.56	255.12	637.80	1,275.60	12,756	4.15	4.31
5½ to 6 years.....	(12/1/72)	32.55	65.10	130.20	260.40	651.00	1,302.00	13,020	4.15	4.33
6 to 6½ years.....	(1/1/73)	33.23	66.46	132.92	265.84	664.60	1,329.20	13,292	4.15	4.35
6½ to 7 years.....	(2/1/73)	33.92	67.84	135.68	271.36	678.40	1,356.80	13,568	4.15	4.38
7 to 7½ years.....	(3/1/73)	34.62	69.24	138.48	276.96	692.40	1,384.80	13,848	4.15	4.42
7½ to 8 years.....	(4/1/74)	35.34	70.68	141.36	282.72	706.80	1,413.60	14,136	4.15	4.47
8 to 8½ years.....	(5/1/74)	36.07	72.14	144.28	288.56	721.40	1,442.80	14,428	4.15	4.56
8½ to 9 years.....	(6/1/75)	36.82	73.61	147.28	294.56	736.40	1,472.80	14,728	4.15	4.69
9 to 9½ years.....	(7/1/75)	37.59	75.18	150.36	300.72	751.80	1,503.60	15,036	4.15	4.94
9½ to 10 years.....	(8/1/76)	38.37	76.74	153.48	306.96	767.40	1,534.80	15,348	4.15	5.73
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....	(8/1/76)	39.47	78.94	157.88	315.76	789.40	1,578.80	15,788	4.23	

<sup>1</sup> Month, day, and year on which issues of December 1, 1956, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 19 years and 8 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 4.82 percent.

TABLE 45

BONDS BEARING ISSUE DATES FROM FEBRUARY 1 THROUGH MAY 1, 1957

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield		
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half- year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity	
Period after original maturity (beginning 8 years 11 months after issue date)	EXTENDED MATURITY PERIOD									
								Percent	Percent	
First ½ year.....	<sup>1</sup> (1/1/56)	\$25.80	\$51.60	\$103.20	\$206.40	\$516.00	\$1,032.00	\$10,320	0.00	<sup>2</sup> 4.15
½ to 1 year.....	(2/1/56)	26.34	52.68	105.36	210.72	526.80	1,053.60	10,536	4.19	<sup>3</sup> 4.15
1 to 1½ years.....	(3/1/56)	26.88	53.76	107.52	215.04	537.60	1,075.20	10,752	4.14	<sup>4</sup> 4.15
1½ to 2 years.....	(4/1/56)	27.41	54.88	109.76	219.52	548.80	1,097.60	10,976	4.15	<sup>5</sup> 4.15
2 to 2½ years.....	(5/1/56)	28.01	56.02	112.04	224.08	560.20	1,120.40	11,204	4.15	<sup>6</sup> 4.15
2½ to 3 years.....	(6/1/56)	28.59	57.18	114.36	228.72	571.80	1,143.60	11,436	4.15	4.25
3 to 3½ years.....	(7/1/56)	29.18	58.36	116.72	233.44	583.60	1,167.20	11,672	4.15	4.26
3½ to 4 years.....	(8/1/56)	29.79	59.58	119.16	238.32	595.80	1,191.60	11,916	4.15	4.27
4 to 4½ years.....	(9/1/56)	30.41	60.82	121.64	243.28	608.20	1,216.40	12,164	4.15	4.28
4½ to 5 years.....	(10/1/56)	31.04	62.08	124.16	248.32	620.80	1,241.60	12,416	4.15	4.29
5 to 5½ years.....	(11/1/56)	31.68	63.36	126.72	253.44	633.60	1,267.20	12,672	4.15	4.31
5½ to 6 years.....	(12/1/56)	32.34	64.68	129.36	258.72	646.80	1,293.60	12,936	4.15	4.32
6 to 6½ years.....	(1/1/57)	33.01	66.02	132.04	264.08	660.20	1,320.40	13,204	4.15	4.34
6½ to 7 years.....	(2/1/57)	33.70	67.40	134.80	269.60	674.00	1,348.00	13,480	4.15	4.37
7 to 7½ years.....	(3/1/57)	34.39	68.78	137.56	275.12	687.80	1,375.60	13,756	4.15	4.41
7½ to 8 years.....	(4/1/57)	35.11	70.22	140.44	280.88	702.20	1,404.40	14,044	4.15	4.46
8 to 8½ years.....	(5/1/57)	35.84	71.68	143.36	286.72	716.80	1,433.60	14,336	4.15	4.53
8½ to 9 years.....	(6/1/57)	36.58	73.16	146.32	292.64	731.60	1,463.20	14,632	4.15	4.67
9 to 9½ years.....	(7/1/57)	37.34	74.68	149.36	298.72	746.80	1,493.60	14,936	4.15	4.92
9½ to 10 years.....	(8/1/57)	38.11	76.22	152.44	304.88	762.20	1,524.40	15,244	4.15	5.72
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....	(1/1/76)	39.20	78.40	156.80	313.60	784.00	1,568.00	15,680	4.23	-----

<sup>1</sup> Month, day, and year on which issues of February 1, 1957, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 18 years and 11 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 3.94 percent.

TABLE 46

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1957

Issue price .....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield		
Denomination .....	25.00	50.00	100.00	200.00	500.00	1,000.00	10,000			
Period after original maturity (beginning 8 years 11 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity	
	EXTENDED MATURITY PERIOD							Percent	Percent	
First ½ year .....	<sup>1</sup> (5/1/66)	\$25.91	\$51.82	\$103.64	\$207.28	\$518.20	\$1,036.40	\$10,364	0.00	<sup>2</sup> 4.15
½ to 1 year .....	(11/1/66)	26.35	52.90	105.80	211.60	529.00	1,058.00	10,580	4.17	<sup>2</sup> 4.15
1 to 1½ years .....	(5/1/67)	27.00	54.00	108.00	216.00	540.00	1,080.00	10,800	4.16	<sup>2</sup> 4.15
1½ to 2 years .....	(11/1/67)	27.56	55.12	110.24	220.48	551.20	1,102.40	11,024	4.16	<sup>2</sup> 4.15
2 to 2½ years .....	(5/1/68)	28.13	56.26	112.52	225.01	562.60	1,125.20	11,252	4.15	4.25
2½ to 3 years .....	(11/1/68)	28.71	57.42	114.84	229.68	574.20	1,148.40	11,484	4.15	4.26
3 to 3½ years .....	(5/1/69)	29.31	58.62	117.21	234.48	586.20	1,172.40	11,721	4.15	4.26
3½ to 4 years .....	(11/1/69)	29.92	59.84	119.68	239.36	598.40	1,196.80	11,968	4.15	4.27
4 to 4½ years .....	(5/1/70)	30.54	61.08	122.16	244.32	610.80	1,221.60	12,216	4.15	4.28
4½ to 5 years .....	(11/1/70)	31.17	62.34	124.68	249.36	623.40	1,246.80	12,468	4.15	4.30
5 to 5½ years .....	(5/1/71)	31.82	63.64	127.28	254.56	636.40	1,272.80	12,728	4.15	4.31
5½ to 6 years .....	(11/1/71)	32.48	64.96	129.92	259.84	649.60	1,299.20	12,992	4.15	4.33
6 to 6½ years .....	(5/1/72)	33.15	66.30	132.60	265.20	663.00	1,326.00	13,260	4.15	4.35
6½ to 7 years .....	(11/1/72)	33.84	67.68	135.36	270.72	676.80	1,353.60	13,536	4.15	4.38
7 to 7½ years .....	(5/1/73)	34.54	69.08	138.16	276.32	690.80	1,381.60	13,816	4.15	4.42
7½ to 8 years .....	(11/1/73)	35.26	70.52	141.04	282.08	705.20	1,410.40	14,104	4.15	4.47
8 to 8½ years .....	(5/1/74)	35.99	71.98	143.96	287.92	719.80	1,439.60	14,396	4.15	4.55
8½ to 9 years .....	(11/1/74)	36.74	73.48	146.96	293.92	734.80	1,469.60	14,696	4.15	4.68
9 to 9½ years .....	(5/1/75)	37.50	75.00	150.00	300.00	750.00	1,500.00	15,000	4.15	4.95
9½ to 10 years .....	(11/1/75)	38.28	76.56	153.12	306.24	765.60	1,531.20	15,312	4.15	5.75
EXTENDED MATURITY VALUE (10 years from original maturity date).....	(5/1/76)	39.38	78.76	157.52	315.01	787.60	1,575.20	15,752	4.23	

<sup>1</sup> Month, day, and year on which issues of June 1, 1957, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>3</sup> 18 years and 11 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 3.96 percent.

TABLE 47

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1957, THROUGH MAY 1, 1958

Issue price ----- Denomination -----	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 8 years 11 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period to extended maturity
	EXTENDED MATURITY PERIOD							Percent	Percent
First ½ year..... <sup>1</sup> (11/1/66)	\$26.03	\$52.06	\$104.12	\$208.24	\$520.60	\$1,041.20	\$10,412	0.00	<sup>2</sup> 4.15
½ to 1 year.....(5/1/67)	26.57	53.14	106.28	212.56	531.40	1,062.80	10,628	4.15	<sup>2</sup> 4.15
1 to 1½ years.....(11/1/67)	27.12	54.24	108.48	216.96	542.40	1,084.80	10,848	4.14	<sup>2</sup> 4.15
1½ to 2 years.....(5/1/68)	27.68	55.36	110.72	221.44	553.60	1,107.20	11,072	4.14	4.25
2 to 2½ years.....(11/1/68)	28.26	56.52	113.04	226.08	565.20	1,130.40	11,304	4.15	4.26
2½ to 3 years.....(5/1/69)	28.85	57.70	115.40	230.80	577.00	1,154.00	11,540	4.16	4.26
3 to 3½ years.....(11/1/69)	29.44	58.88	117.76	235.52	588.80	1,177.60	11,776	4.15	4.27
3½ to 4 years.....(5/1/70)	30.05	60.10	120.20	240.40	601.00	1,202.00	12,020	4.15	4.28
4 to 4½ years.....(11/1/70)	30.68	61.36	122.72	245.44	613.60	1,227.20	12,272	4.15	4.29
4½ to 5 years.....(5/1/71)	31.31	62.62	125.24	250.48	626.20	1,252.40	12,524	4.15	4.31
5 to 5½ years.....(11/1/71)	31.96	63.92	127.84	255.68	639.20	1,278.40	12,784	4.15	4.32
5½ to 6 years.....(5/1/72)	32.63	65.26	130.52	261.04	652.60	1,305.20	13,052	4.15	4.34
6 to 6½ years.....(11/1/72)	33.30	66.60	133.20	266.40	666.00	1,332.00	13,320	4.15	4.37
6½ to 7 years.....(5/1/73)	34.00	68.00	136.00	272.00	680.00	1,360.00	13,600	4.15	4.33
7 to 7½ years.....(11/1/73)	34.70	69.40	138.80	277.60	694.00	1,388.00	13,880	4.15	4.40
7½ to 8 years.....(5/1/74)	35.42	70.84	141.68	283.36	708.40	1,416.80	14,168	4.15	4.49
8 to 8½ years.....(11/1/74)	36.16	72.32	144.64	289.28	723.20	1,446.40	14,464	4.15	4.57
8½ to 9 years.....(5/1/75)	36.91	73.82	147.64	295.28	738.20	1,476.40	14,764	4.15	4.71
9 to 9½ years.....(11/1/75)	37.67	75.34	150.68	301.36	753.40	1,506.80	15,068	4.15	5.01
9½ to 10 years.....(5/1/76)	38.45	76.90	153.80	307.60	769.00	1,538.00	15,380	4.15	5.88
EXTENDED MATURITY VALUE (10 years from original maturity date).....(11/1/76)	39.58	79.16	158.32	316.64	791.60	1,583.20	15,832	4.23	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1957, enter each period. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.

<sup>3</sup> 18 years and 11 months from issue date. Extended maturity value improved by the revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 3.99 percent.

TABLE 48

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1958

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half- year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (be- ginning 8 years 11 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (5/1/67)	\$26.14	\$52.28	\$104.56	\$209.12	\$522.80	\$1,045.60	\$10,456	0.00	<sup>2</sup> 4.15
½ to 1 year..... (11/1/67)	26.68	53.36	106.72	213.44	533.60	1,067.20	10,672	4.13	<sup>2</sup> 4.15
1 to 1½ years..... (5/1/68)	27.24	54.48	108.96	217.92	544.80	1,089.60	10,896	4.16	4.25
1½ to 2 years..... (11/1/68)	27.80	55.60	111.20	222.40	556.00	1,112.00	11,120	4.15	4.26
2 to 2½ years..... (5/1/69)	28.38	56.76	113.52	227.04	567.60	1,135.20	11,352	4.15	4.26
2½ to 3 years..... (11/1/69)	28.97	57.94	115.88	231.76	579.40	1,158.80	11,588	4.15	4.27
3 to 3½ years..... (5/1/70)	29.57	59.14	118.28	236.56	591.40	1,182.80	11,828	4.15	4.28
3½ to 4 years..... (11/1/70)	30.18	60.36	120.72	241.44	603.60	1,207.20	12,072	4.15	4.29
4 to 4½ years..... (5/1/71)	30.81	61.62	123.24	246.48	616.20	1,232.40	12,324	4.15	4.30
4½ to 5 years..... (11/1/71)	31.45	62.90	125.80	251.60	629.00	1,258.00	12,580	4.15	4.31
5 to 5½ years..... (5/1/72)	32.10	64.20	128.40	256.80	642.00	1,284.00	12,840	4.15	4.33
5½ to 6 years..... (11/1/72)	32.77	65.54	131.08	262.16	655.40	1,310.80	13,108	4.15	4.35
6 to 6½ years..... (5/1/73)	33.45	66.90	133.80	267.60	669.00	1,338.00	13,380	4.15	4.37
6½ to 7 years..... (11/1/73)	34.14	68.28	136.56	273.12	682.80	1,365.60	13,656	4.15	4.41
7 to 7½ years..... (5/1/74)	34.85	69.70	139.40	278.80	697.00	1,394.00	13,940	4.15	4.45
7½ to 8 years..... (11/1/74)	35.57	71.14	142.28	284.56	711.40	1,422.80	14,228	4.15	4.51
8 to 8½ years..... (5/1/75)	36.31	72.62	145.24	290.48	726.20	1,452.40	14,524	4.15	4.60
8½ to 9 years..... (11/1/75)	37.06	74.12	148.24	296.48	741.20	1,482.40	14,824	4.15	4.76
9 to 9½ years..... (5/1/76)	37.83	75.66	151.32	302.64	756.60	1,513.20	15,132	4.15	5.06
9½ to 10 years..... (11/1/76)	38.62	77.24	154.48	308.96	772.40	1,544.80	15,448	4.15	5.96
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(5/1/77)	39.77	79.54	159.08	318.16	795.40	1,590.80	15,908	<sup>4</sup> 4.24	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1958, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1958, revision.<sup>3</sup> 18 years and 11 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 4.01 percent.

TABLE 49

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1958, THROUGH MAY 1, 1959

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after original maturity (beginning 8 years 11 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
EXTENDED MATURITY PERIOD									
								Percent	Percent
First ½ year..... <sup>1</sup> (11/1/67)	\$26.26	\$52.52	\$105.04	\$210.08	\$525.20	\$1,050.40	\$10,504	0.00	<sup>2</sup> 4.15
½ to 1 year..... (5/1/68)	26.80	53.60	107.20	214.40	536.00	1,072.00	10,720	4.11	4.25
1 to 1½ years..... (11/1/68)	27.36	54.72	109.44	218.88	547.20	1,094.40	10,944	4.15	4.26
1½ to 2 years..... (5/1/69)	27.93	55.86	111.72	223.44	558.60	1,117.20	11,172	4.15	4.26
2 to 2½ years..... (11/1/69)	28.51	57.02	114.04	228.08	570.20	1,140.40	11,404	4.15	4.27
2½ to 3 years..... (5/1/70)	29.10	58.20	116.40	232.80	582.00	1,164.00	11,640	4.15	4.28
3 to 3½ years..... (11/1/70)	29.70	59.40	118.80	237.60	594.00	1,188.00	11,880	4.15	4.29
3½ to 4 years..... (5/1/71)	30.32	60.64	121.28	242.56	606.40	1,212.80	12,128	4.15	4.30
4 to 4½ years..... (11/1/71)	30.95	61.90	123.80	247.60	619.00	1,238.00	12,380	4.15	4.31
4½ to 5 years..... (5/1/72)	31.59	63.18	126.36	252.72	631.80	1,263.60	12,636	4.15	4.33
5 to 5½ years..... (11/1/72)	32.25	64.50	129.00	258.00	645.00	1,290.00	12,900	4.15	4.34
5½ to 6 years..... (5/1/73)	32.92	65.84	131.68	263.36	658.40	1,316.80	13,168	4.15	4.36
6 to 6½ years..... (11/1/73)	33.60	67.20	134.40	268.80	672.00	1,344.00	13,440	4.15	4.39
6½ to 7 years..... (5/1/74)	34.30	68.60	137.20	274.40	686.00	1,372.00	13,720	4.15	4.43
7 to 7½ years..... (11/1/74)	35.01	70.02	140.04	280.08	700.20	1,400.40	14,004	4.15	4.47
7½ to 8 years..... (5/1/75)	35.73	71.46	142.92	285.84	714.60	1,429.20	14,292	4.15	4.55
8 to 8½ years..... (11/1/75)	36.48	72.96	145.92	291.84	729.60	1,459.20	14,592	4.15	4.63
8½ to 9 years..... (5/1/76)	37.23	74.46	148.92	297.84	744.60	1,489.20	14,892	4.15	4.81
9 to 9½ years..... (11/1/76)	38.01	76.02	152.04	304.08	760.20	1,520.40	15,204	4.15	5.12
9½ to 10 years..... (5/1/77)	38.79	77.58	155.16	310.32	775.80	1,551.60	15,516	4.15	6.14
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>3</sup> .....(11/1/77)	39.98	79.96	159.92	319.84	799.60	1,599.20	15,992	<sup>4</sup> 4.25	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1958, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each half-year period to extended maturity at extended maturity value prior to the June 1, 1958, revision.<sup>3</sup> 18 years and 11 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 4.04 percent.

TABLE 50

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1959

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (be- ginning 7 years 9 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (3/1/67)	\$25.13	\$50.26	\$100.52	\$201.04	\$502.60	\$1,005.20	\$10,052	0.00	4.15
½ to 1 year.....(9/1/67)	25.65	51.30	102.60	205.20	513.00	1,026.00	10,260	4.14	4.15
1 to 1½ years.....(3/1/68)	26.18	52.36	104.72	209.44	523.60	1,047.20	10,472	4.14	4.25
1½ to 2 years.....(9/1/68)	26.73	53.46	106.92	213.84	534.60	1,069.20	10,692	4.16	4.25
2 to 2½ years.....(3/1/69)	27.28	54.56	109.12	218.24	545.60	1,091.20	10,912	4.15	4.26
2½ to 3 years.....(9/1/69)	27.85	55.70	111.40	222.80	557.00	1,111.00	11,140	4.15	4.27
3 to 3½ years.....(3/1/70)	28.43	56.86	113.72	227.44	568.60	1,137.20	11,372	4.16	4.28
3½ to 4 years.....(9/1/70)	29.02	58.04	116.08	232.16	580.40	1,160.80	11,608	4.15	4.29
4 to 4½ years.....(3/1/71)	29.62	59.24	118.48	236.96	592.40	1,184.80	11,848	4.15	4.30
4½ to 5 years.....(9/1/71)	30.23	60.46	120.92	241.84	604.60	1,209.20	12,092	4.15	4.31
5 to 5½ years.....(3/1/72)	30.86	61.72	123.44	246.88	617.20	1,234.40	12,344	4.15	4.33
5½ to 6 years.....(9/1/72)	31.50	63.00	126.00	252.00	630.00	1,260.00	12,600	4.15	4.35
6 to 6½ years.....(3/1/73)	32.15	64.30	128.60	257.20	643.00	1,286.00	12,860	4.15	4.38
6½ to 7 years.....(9/1/73)	32.82	65.64	131.28	262.56	656.40	1,312.80	13,128	4.15	4.41
7 to 7½ years.....(3/1/74)	33.50	67.00	134.00	268.00	670.00	1,340.00	13,400	4.15	4.45
7½ to 8 years.....(9/1/74)	34.20	68.40	136.80	273.60	684.00	1,368.00	13,680	4.15	4.51
8 to 8½ years.....(3/1/75)	34.91	69.82	139.64	279.28	698.20	1,396.40	13,964	4.15	4.59
8½ to 9 years.....(9/1/75)	35.63	71.26	142.52	285.04	712.60	1,425.20	14,252	4.15	4.75
9 to 9½ years.....(3/1/76)	36.37	72.74	145.48	290.96	727.40	1,454.80	14,548	4.15	5.05
9½ to 10 years.....(9/1/76)	37.12	74.24	148.48	296.96	742.40	1,484.80	14,848	4.15	5.98
EXTENDED MATURITY VALUE (10 years from original maturity date) <sup>2</sup> .....(3/1/77)	38.23	76.46	152.92	305.84	764.60	1,529.20	15,292	4.24	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of first half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 17 years and 9 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 4.05 percent.

TABLE 51

## BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1959, THROUGH MAY 1, 1960

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of the extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half- year period to extended maturity
Period after original maturity (be- ginning 7 years 9 months after issue date)	EXTENDED MATURITY PERIOD								
								Percent	Percent
First ½ year..... <sup>1</sup> (9/1/67)	\$25.18	\$50.36	\$100.72	\$201.44	\$503.60	\$1,007.20	\$10,072	0.00	4.15
½ to 1 year.....(3/1/68)	25.70	51.40	102.80	205.60	514.00	1,028.00	10,280	4.13	4.25
1 to 1½ years.....(9/1/68)	26.24	52.48	104.96	209.92	524.80	1,049.60	10,496	4.17	4.26
1½ to 2 years.....(3/1/69)	26.78	53.56	107.12	214.24	535.60	1,071.20	10,712	4.15	4.26
2 to 2½ years.....(9/1/69)	27.34	54.68	109.36	218.72	546.80	1,093.60	10,936	4.16	4.27
2½ to 3 years.....(3/1/70)	27.90	55.80	111.60	223.20	558.00	1,116.00	11,160	4.15	4.28
3 to 3½ years.....(9/1/70)	28.48	56.96	113.92	227.84	569.60	1,139.20	11,392	4.15	4.29
3½ to 4 years.....(3/1/71)	29.07	58.14	116.28	232.56	581.40	1,162.80	11,628	4.15	4.30
4 to 4½ years.....(9/1/71)	29.68	59.36	118.72	237.44	593.60	1,187.20	11,872	4.15	4.31
4½ to 5 years.....(3/1/72)	30.29	60.58	121.16	242.32	605.80	1,211.60	12,116	4.15	4.33
5 to 5½ years.....(9/1/72)	30.92	61.84	123.68	247.36	618.40	1,236.80	12,368	4.15	4.34
5½ to 6 years.....(3/1/73)	31.56	63.12	126.24	252.48	631.20	1,262.40	12,624	4.15	4.37
6 to 6½ years.....(9/1/73)	32.22	64.44	128.88	257.76	644.40	1,288.80	12,888	4.15	4.39
6½ to 7 years.....(3/1/74)	32.89	65.78	131.56	263.12	657.80	1,315.60	13,156	4.15	4.42
7 to 7½ years.....(9/1/74)	33.57	67.14	134.28	268.56	671.40	1,342.80	13,428	4.15	4.47
7½ to 8 years.....(3/1/75)	34.26	68.52	137.04	274.08	685.20	1,370.40	13,704	4.15	4.54
8 to 8½ years.....(9/1/75)	34.98	69.96	139.92	279.84	699.60	1,399.20	13,992	4.15	4.63
8½ to 9 years.....(3/1/76)	35.70	71.40	142.80	285.60	714.00	1,428.00	14,280	4.15	4.80
9 to 9½ years.....(9/1/76)	36.44	72.88	145.76	291.52	728.80	1,457.60	14,576	4.15	5.12
9½ to 10 years.....(3/1/77)	37.20	74.40	148.80	297.60	744.00	1,488.00	14,880	4.15	6.08
EXTENDED MATU- RITY VALUE (10 years from original maturity date) <sup>2</sup> .....(9/1/77)	38.33	76.66	153.32	306.64	766.60	1,533.20	15,332	4.25	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1959, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of first half-year period to extended maturity at extended maturity value prior to the June 1, 1968, revision.<sup>3</sup> 17 years and 9 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>4</sup> Yield on purchase price from issue date to extended maturity date is 4.07 percent.



TABLE 52

## BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1960

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of each ma- turity or extended ma- turity period to beginning of each half- year period, thereafter	(3) On cur- rent redem- ption value from be- ginning of each half- year period <sup>4</sup> (a) to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (6/1/60)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(12/1/60)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(6/1/61)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(12/1/61)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(6/1/62)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(12/1/62)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(6/1/63)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.05
3½ to 4 years.....(12/1/63)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.26	<sup>3</sup> 4.06
4 to 4½ years.....(6/1/64)	21.50	43.00	86.00	172.00	430.00	860.00	8,600	3.45	<sup>3</sup> 4.06
4½ to 5 years.....(12/1/64)	21.95	43.90	87.80	175.60	439.00	878.00	8,780	3.53	<sup>3</sup> 4.04
5 to 5½ years.....(6/1/65)	22.40	44.80	89.60	179.20	448.00	896.00	8,960	3.59	<sup>3</sup> 4.03
5½ to 6 years.....(12/1/65)	22.86	45.72	91.44	182.88	457.20	914.40	9,144	3.64	<sup>4</sup> 4.43
6 to 6½ years.....(6/1/66)	23.33	46.66	93.32	186.64	466.60	933.20	9,332	3.68	<sup>4</sup> 4.52
6½ to 7 years.....(12/1/66)	23.83	47.66	95.32	190.64	476.00	953.20	9,532	3.72	<sup>4</sup> 4.62
7 to 7½ years.....(6/1/67)	24.37	48.74	97.48	194.96	487.10	974.80	9,748	3.78	<sup>4</sup> 4.68
7½ years to 7 years and 9 months.....(12/1/67)	24.93	49.86	99.72	199.44	498.60	997.20	9,972	3.83	<sup>4</sup> 4.84
<b>MATURITY VALUE (7 years and 9 months from issue date).....(3/1/68)</b>	<b>25.23</b>	<b>50.46</b>	<b>100.92</b>	<b>201.84</b>	<b>504.60</b>	<b>1,009.20</b>	<b>10,092</b>	<b>3.87</b>	-----
Period after maturity date	EXTENDED MATURITY PERIOD							(b) to ex- tended maturity	
First ½ year.....(3/1/68)	\$25.23	\$50.46	\$100.92	\$201.84	\$504.60	\$1,009.20	\$10,092	0.00	4.25
½ to 1 year.....(9/1/68)	25.75	51.50	103.00	206.00	515.00	1,030.00	10,300	4.12	4.26
1 to 1½ years.....(3/1/69)	26.29	52.58	105.16	210.32	525.80	1,051.60	10,516	4.16	4.26
1½ to 2 years.....(9/1/69)	26.83	53.66	107.32	214.64	536.60	1,073.20	10,732	4.14	4.27
2 to 2½ years.....(3/1/70)	27.39	54.78	109.56	219.12	547.80	1,095.60	10,956	4.15	4.28
2½ to 3 years.....(9/1/70)	27.96	55.92	111.84	223.68	559.20	1,118.40	11,184	4.15	4.28
3 to 3½ years.....(3/1/71)	28.54	57.08	114.16	228.32	570.80	1,141.60	11,416	4.15	4.29
3½ to 4 years.....(9/1/71)	29.13	58.26	116.52	233.04	582.60	1,165.20	11,652	4.15	4.30
4 to 4½ years.....(3/1/72)	29.74	59.48	118.96	237.92	594.80	1,189.60	11,896	4.15	4.31
4½ to 5 years.....(9/1/72)	30.35	60.70	121.40	242.80	607.00	1,214.00	12,140	4.15	4.33
5 to 5½ years.....(3/1/73)	30.98	61.96	123.92	247.84	619.60	1,239.20	12,392	4.15	4.35
5½ to 6 years.....(9/1/73)	31.62	63.24	126.48	252.96	632.40	1,264.80	12,648	4.15	4.38
6 to 6½ years.....(3/1/74)	32.28	64.56	129.12	258.24	645.60	1,291.20	12,912	4.15	4.40
6½ to 7 years.....(9/1/74)	32.95	65.90	131.80	263.60	659.00	1,318.00	13,180	4.15	4.44
7 to 7½ years.....(3/1/75)	33.63	67.26	131.52	269.04	672.60	1,345.20	13,452	4.15	4.49
7½ to 8 years.....(9/1/75)	34.33	68.66	137.32	274.64	686.60	1,373.20	13,732	4.15	4.55
8 to 8½ years.....(3/1/76)	35.05	70.10	140.20	280.40	701.00	1,402.00	14,020	4.15	4.64
8½ to 9 years.....(9/1/76)	35.77	71.54	143.08	286.16	715.40	1,430.80	14,308	4.15	4.82
9 to 9½ years.....(3/1/77)	36.51	73.02	146.04	292.08	730.20	1,460.40	14,604	4.15	5.16
9½ to 10 years.....(9/1/77)	37.27	74.54	149.08	298.16	745.40	1,490.80	14,908	4.15	6.17
<b>EXTENDED MATURITY VALUE (10 years from original maturity date).....(3/1/78)</b>	<b>38.42</b>	<b>76.84</b>	<b>153.68</b>	<b>307.36</b>	<b>768.40</b>	<b>1,536.80</b>	<b>15,368</b>	<b>4.25</b>	-----

<sup>1</sup> 13-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issue of June 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> 17 years and 9 months from issue date. Extended maturity value improved by the revision of June 1, 1968.<sup>6</sup> Yield on purchase price from issue date to extended maturity date is 4.08 percent.

TABLE 53

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1960, THROUGH MAY 1, 1961

Issue price Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)							(2) On the redemption value at start of each ma- turity or extended ma- turity period to beginning of each half- year period thereafter	(3) On cur- rent re- demption value from be- ginning of each half- year period <sup>1</sup> (a) to maturity
First ½ year..... <sup>2</sup> (12/1/60)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent	Percent
½ to 1 year.....(6/1/61)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.75
1 to 1½ years.....(12/1/61)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.89
1½ to 2 years.....(6/1/62)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(12/1/62)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(6/1/63)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(12/1/63)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.05
3½ to 4 years.....(6/1/64)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.36	<sup>3</sup> 4.06
4 to 4½ years.....(12/1/64)	21.50	43.00	86.00	172.00	430.00	860.00	8,600	3.45	<sup>3</sup> 4.06
4½ to 5 years.....(6/1/65)	21.95	43.90	87.80	175.60	439.00	878.00	8,780	3.53	<sup>3</sup> 4.04
5 to 5½ years.....(12/1/65)	22.40	44.80	89.60	179.20	448.00	896.00	8,960	3.59	<sup>3</sup> 4.45
5½ to 6 years.....(6/1/66)	22.87	45.74	91.48	182.96	457.40	914.80	9,148	3.64	<sup>3</sup> 4.50
6 to 6½ years.....(12/1/66)	23.35	46.70	93.40	186.80	467.00	934.00	9,340	3.69	<sup>3</sup> 4.59
6½ to 7 years.....(6/1/67)	23.87	47.74	95.48	190.96	477.40	954.80	9,548	3.73	<sup>3</sup> 4.64
7 to 7½ years.....(12/1/67)	24.41	48.82	97.64	195.28	488.20	976.40	9,764	3.80	<sup>3</sup> 4.72
7½ years to 7 years and 9 months.....(6/1/68)	24.97	49.94	99.88	199.76	499.40	998.80	9,988	3.86	<sup>3</sup> 5.00
<b>MATURITY VALUE (7 years and 9 months from issue date).....(9/1/68)</b>	<b>25.28</b>	<b>50.56</b>	<b>101.12</b>	<b>202.24</b>	<b>505.60</b>	<b>1,011.20</b>	<b>10,112</b>	<b>3.89</b>	-----
Period after maturity date	EXTENDED MATURITY PERIOD								(b) to ex- tended maturity
First ½ year.....(9/1/68)	\$25.28	\$50.56	\$101.12	\$202.24	\$505.60	\$1,011.20	\$10,112	0.00	4.25
½ to 1 year.....(3/1/69)	25.80	51.00	102.20	206.40	516.00	1,032.00	10,320	4.11	4.26
1 to 1½ years.....(9/1/69)	26.34	52.68	105.36	210.72	526.80	1,053.60	10,536	4.15	4.26
1½ to 2 years.....(3/1/70)	26.89	53.78	107.56	215.12	537.80	1,075.60	10,756	4.16	4.26
2 to 2½ years.....(9/1/70)	27.44	54.88	109.76	219.52	548.80	1,097.60	10,976	4.14	4.28
2½ to 3 years.....(3/1/71)	28.01	56.02	112.04	224.08	560.20	1,120.40	11,204	4.14	4.28
3 to 3½ years.....(9/1/71)	28.60	57.20	114.40	228.80	572.00	1,144.00	11,440	4.16	4.29
3½ to 4 years.....(3/1/72)	29.19	58.38	116.76	233.52	583.80	1,167.60	11,676	4.15	4.30
4 to 4½ years.....(9/1/72)	29.79	59.58	119.16	238.32	595.80	1,191.60	11,916	4.15	4.32
4½ to 5 years.....(3/1/73)	30.41	60.82	121.64	243.28	608.20	1,216.40	12,164	4.15	4.33
5 to 5½ years.....(9/1/73)	31.04	62.08	124.16	248.32	620.80	1,241.60	12,416	4.15	4.35
5½ to 6 years.....(3/1/74)	31.69	63.38	126.76	253.52	633.80	1,267.60	12,676	4.15	4.37
6 to 6½ years.....(9/1/74)	32.35	64.70	129.40	258.80	647.00	1,294.00	12,940	4.15	4.39
6½ to 7 years.....(3/1/75)	33.02	66.04	132.08	264.16	660.40	1,320.80	13,208	4.15	4.43
7 to 7½ years.....(9/1/75)	33.70	67.40	134.80	269.60	674.00	1,348.00	13,480	4.15	4.48
7½ to 8 years.....(3/1/76)	34.40	68.80	137.60	275.20	688.00	1,376.00	13,760	4.15	4.54
8 to 8½ years.....(9/1/76)	35.11	70.22	140.44	280.88	702.20	1,404.40	14,044	4.15	4.65
8½ to 9 years.....(3/1/77)	35.84	71.68	143.36	286.72	716.80	1,433.60	14,336	4.15	4.81
9 to 9½ years.....(9/1/77)	36.59	73.18	146.36	292.72	731.80	1,463.60	14,636	4.15	5.13
9½ to 10 years.....(3/1/78)	37.35	74.70	149.40	298.80	747.00	1,494.00	14,940	4.15	6.10
<b>EXTENDED MATURITY VALUE (10 years from original maturity date)<sup>4</sup>.....(9/1/78)</b>	<b>38.49</b>	<b>76.98</b>	<b>153.96</b>	<b>307.92</b>	<b>769.80</b>	<b>1,539.60</b>	<b>15,396</b>	<b>4.25</b>	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of December 1, 1960, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> 17 years and 9 months from issue date. Extended maturity value improved by the revision of June 1, 1965.<sup>6</sup> Yield on purchase price from issue date to extended maturity date is 4.09 percent.

TABLE 54

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1961

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)							(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (6/1/61)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(6/1/61)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(6/1/62)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(12/1/62)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(6/1/63)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(12/1/63)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(6/1/64)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.05
3½ to 4 years.....(12/1/64)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.36	<sup>3</sup> 4.06
4 to 4½ years.....(6/1/65)	21.50	43.00	86.00	172.00	430.00	860.00	8,600	3.45	<sup>3</sup> 4.06
4½ to 5 years.....(12/1/65)	21.95	43.90	87.80	175.60	439.00	878.00	8,780	3.53	<sup>3</sup> 4.44
5 to 5½ years.....(6/1/66)	22.41	44.82	89.64	179.28	448.20	896.40	8,964	3.60	<sup>3</sup> 4.49
5½ to 6 years.....(12/1/66)	22.89	45.78	91.56	183.12	457.80	915.60	9,156	3.66	<sup>3</sup> 4.53
6 to 6½ years.....(6/1/67)	23.38	46.76	93.52	187.04	467.60	935.20	9,352	3.71	<sup>3</sup> 4.61
6½ to 7 years.....(12/1/67)	23.91	47.82	95.64	191.28	478.20	956.40	9,564	3.78	<sup>3</sup> 4.64
7 to 7½ years.....(6/1/68)	24.46	48.92	97.84	195.68	489.20	978.40	9,784	3.83	<sup>3</sup> 4.77
7½ years to 7 years and 9 months.....(12/1/68)	25.02	50.04	100.08	200.16	500.40	1,000.80	10,008	3.88	5.15
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>5</sup> .....(3/1/69)	25.34	50.68	101.36	202.72	506.80	1,013.60	10,136	3.92	-----

<sup>1</sup> 13-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of June 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 55

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1961, THROUGH MAY 1, 1962

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (12/1/61)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(6/1/62)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(12/1/62)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(6/1/63)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(12/1/63)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(6/1/64)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(12/1/64)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.05
3½ to 4 years.....(6/1/65)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.36	<sup>3</sup> 4.06
4 to 4½ years.....(12/1/65)	21.50	43.00	86.00	172.00	430.00	860.00	8,600	3.45	<sup>3</sup> 4.46
4½ to 5 years.....(6/1/66)	21.96	43.92	87.84	175.68	439.20	878.40	8,784	3.51	<sup>3</sup> 4.49
5 to 5½ years.....(12/1/66)	22.42	44.84	89.68	179.36	448.40	896.80	8,968	3.61	<sup>3</sup> 4.55
5½ to 6 years.....(6/1/67)	22.91	45.82	91.64	183.28	458.20	916.40	9,164	3.68	<sup>3</sup> 4.58
6 to 6½ years.....(12/1/67)	23.42	46.84	93.68	187.36	468.40	936.80	9,368	3.74	<sup>3</sup> 4.62
6½ to 7 years.....(6/1/68)	23.95	47.90	95.80	191.60	479.00	958.00	9,580	3.80	<sup>3</sup> 4.79
7 to 7½ years.....(12/1/68)	24.50	49.00	98.00	196.00	490.00	980.00	9,800	3.86	<sup>3</sup> 4.92
7½ years to 7 years and 9 months.....(6/1/69)	25.07	50.14	100.28	200.56	501.40	1,002.80	10,028	3.91	5.46
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>5</sup> .....(9/1/69)	25.41	50.82	101.64	203.28	508.20	1,016.40	10,164	3.96	-----

<sup>1</sup> 13-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of December 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 56

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1962

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)							(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (6/1/62)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(12/1/62)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(6/1/63)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(12/1/63)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(6/1/64)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(12/1/64)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(6/1/65)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.05
3½ to 4 years.....(12/1/65)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.36	<sup>3</sup> 4.47
4 to 4½ years.....(6/1/66)	21.51	43.02	86.04	172.08	430.20	860.40	8,604	3.46	<sup>3</sup> 4.50
4½ to 5 years.....(12/1/66)	21.97	43.94	87.88	175.76	439.40	878.80	8,788	3.55	<sup>3</sup> 4.54
5 to 5½ years.....(6/1/67)	22.45	44.90	89.80	179.60	449.00	898.00	8,980	3.63	<sup>3</sup> 4.57
5½ to 6 years.....(12/1/67)	22.93	45.90	91.80	183.60	459.00	918.00	9,180	3.71	<sup>3</sup> 4.60
6 to 6½ years.....(6/1/68)	23.46	46.92	93.84	187.68	469.20	938.40	9,384	3.77	<sup>3</sup> 4.75
6½ to 7 years.....(12/1/68)	23.99	47.98	95.96	191.92	479.80	959.60	9,596	3.83	<sup>3</sup> 4.85
7 to 7½ years.....(6/1/69)	24.53	49.10	98.20	196.40	491.00	982.00	9,820	3.89	<sup>3</sup> 4.97
7½ years to 7 years and 9 months.....(12/1/69)	25.12	50.24	100.48	200.96	502.40	1,004.80	10,048	3.94	5.61
<b>MATURITY VALUE</b> <b>(7 years and 9</b> <b>months from issue</b> <b>date)<sup>5</sup>.....(3/1/70)</b>	25.47	50.94	101.88	203.76	509.40	1,018.80	10,188	3.99	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of June 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 57

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1962, THROUGH MAY 1, 1963

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)							(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (12/1/62)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(6/1/63)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(12/1/63)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(6/1/64)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(12/1/64)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.01
2½ to 3 years.....(6/1/65)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	<sup>3</sup> 4.03
3 to 3½ years.....(12/1/65)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	<sup>3</sup> 4.46
3½ to 4 years.....(6/1/66)	21.08	42.16	84.32	168.64	421.60	843.20	8,432	3.37	<sup>3</sup> 4.50
4 to 4½ years.....(12/1/66)	21.52	43.01	86.08	172.16	430.40	860.80	8,608	3.47	<sup>3</sup> 4.54
4½ to 5 years.....(6/1/67)	21.99	43.98	87.96	175.92	439.80	879.60	8,796	3.57	<sup>3</sup> 4.57
5 to 5½ years.....(12/1/67)	22.48	44.96	89.92	179.84	449.60	899.20	8,992	3.66	<sup>3</sup> 4.59
5½ to 6 years.....(6/1/68)	22.98	45.96	91.92	183.84	459.60	919.20	9,192	3.73	<sup>3</sup> 4.73
6 to 6½ years.....(12/1/68)	23.50	47.00	94.00	188.00	470.00	940.00	9,400	3.80	<sup>3</sup> 4.79
6½ to 7 years.....(6/1/69)	24.04	48.08	96.16	192.32	480.80	961.60	9,616	3.86	<sup>3</sup> 4.87
7 to 7½ years.....(12/1/69)	24.60	49.20	98.40	196.80	492.00	984.00	9,840	3.92	<sup>3</sup> 5.01
7½ years to 7 years and 9 months.....(6/1/70)	25.17	50.34	100.68	201.36	503.40	1,006.80	10,068	3.96	5.76
<b>MATURITY VALUE (7</b> <b>years and 9 months</b> <b>from issue</b> <b>date)<sup>5</sup>.....(9/1/70)</b>	25.53	51.06	102.12	204.24	510.60	1,021.20	10,212	4.02	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of December 1, 1962, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.



TABLE 58

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1963

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
								Percent	Percent
First ½ year..... <sup>2</sup> (6/1/63)	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	3.75
½ to 1 year.....(12/1/63)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	3.89
1 to 1½ years.....(6/1/64)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	3.96
1½ to 2 years.....(12/1/64)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	4.01
2 to 2½ years.....(6/1/65)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	4.01
2½ to 3 years.....(12/1/65)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	4.43
3 to 3½ years.....(6/1/66)	20.67	41.34	82.68	165.36	413.40	826.80	8,268	3.28	4.49
3½ to 4 years.....(12/1/66)	21.09	42.18	84.36	168.72	421.80	843.60	8,436	3.39	4.54
4 to 4½ years.....(6/1/67)	21.54	43.08	86.16	172.32	430.80	861.60	8,616	3.50	4.57
4½ to 5 years.....(12/1/67)	22.02	44.04	88.08	176.16	440.40	880.80	8,808	3.60	4.59
5 to 5½ years.....(6/1/68)	22.51	45.02	90.01	180.08	450.20	900.40	9,004	3.69	4.72
5½ to 6 years.....(12/1/68)	23.02	46.01	92.08	184.16	460.40	920.80	9,208	3.77	4.76
6 to 6½ years.....(6/1/69)	23.54	47.08	94.16	188.32	470.80	941.60	9,416	3.83	4.83
6½ to 7 years.....(12/1/69)	24.08	48.16	96.32	192.64	481.60	963.20	9,632	3.89	4.93
7 to 7½ years.....(6/1/70)	24.64	49.28	98.56	197.12	492.80	985.60	9,856	3.94	5.11
7½ years to 7 years and 9 months.....(12/1/70)	25.22	50.44	100.88	201.76	504.40	1,008.80	10,088	3.99	5.91
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>3</sup> .....(3/1/71)	25.59	51.18	102.36	204.72	511.80	1,023.60	10,236	4.05	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of June 1, 1963, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 59

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1963, THROUGH MAY 1, 1964

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
									Percent	Percent
First ½ year..... <sup>2</sup> (12/1/63)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	<sup>3</sup> 3.75
½ to 1 year.....(6/1/64)	18.91	37.82	56.73	75.64	151.28	378.20	756.40	7,564	1.71	<sup>3</sup> 3.89
1 to 1½ years.....(12/1/64)	19.19	38.38	57.57	76.76	153.52	383.80	767.60	7,676	2.33	<sup>3</sup> 3.96
1½ to 2 years.....(6/1/65)	19.51	39.02	58.53	78.04	156.08	390.20	780.40	7,804	2.67	<sup>3</sup> 4.01
2 to 2½ years.....(12/1/65)	19.90	39.80	59.70	79.60	159.20	398.00	796.00	7,960	3.00	<sup>3</sup> 4.41
2½ to 3 years.....(6/1/66)	20.29	40.58	60.87	81.16	162.32	405.80	811.60	8,116	3.18	<sup>4</sup> 4.45
3 to 3½ years.....(12/1/66)	20.68	41.36	62.04	82.72	165.44	413.60	827.20	8,272	3.29	<sup>4</sup> 4.52
3½ to 4 years.....(6/1/67)	21.10	42.20	63.30	84.40	168.80	422.00	844.00	8,440	3.40	<sup>4</sup> 4.57
4 to 4½ years.....(12/1/67)	21.56	43.12	64.68	86.24	172.48	431.20	862.40	8,624	3.52	<sup>4</sup> 4.60
4½ to 5 years.....(6/1/68)	22.05	44.10	66.15	88.20	176.40	441.00	882.00	8,820	3.64	4.72
5 to 5½ years.....(12/1/68)	22.54	45.08	67.62	90.16	180.32	450.80	901.60	9,016	3.72	4.77
5½ to 6 years.....(6/1/69)	23.05	46.10	69.15	92.20	184.40	461.00	922.00	9,220	3.79	4.82
6 to 6½ years.....(12/1/69)	23.58	47.16	70.74	94.32	188.64	471.60	943.20	9,432	3.86	4.89
6½ to 7 years.....(6/1/70)	24.13	48.26	72.39	96.52	193.04	482.60	965.20	9,652	3.92	4.98
7 to 7½ years.....(12/1/70)	24.69	49.38	74.07	98.76	197.52	493.80	987.60	9,876	3.97	5.20
7½ years to 7 years and 9 months.....(6/1/71)	25.27	50.54	75.81	101.08	202.16	505.40	1,010.80	10,108	4.02	6.22
MATURITY VALUE (7 years and 9 months from issue date) <sup>3</sup> .....(9/1/71)	25.66	51.32	76.98	102.64	205.28	513.20	1,026.40	10,264	4.09	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of December 1, 1963, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

**TABLE 60**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1964**

REDUCTION OF ISSUE PRICES FROM JUNE 1 THROUGH NOVEMBER 1, 1964										
Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate yield	
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000		
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)								(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup>	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
									Percent	Percent
First ½ year..... <sup>2</sup> (6/1/64)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	3.75
½ to 1 year.....(12/1/64)	18.91	37.82	56.73	75.64	151.28	378.20	756.40	7,564	1.71	3.89
1 to 1½ years.....(6/1/65)	19.19	38.38	57.57	76.76	153.52	383.80	767.60	7,676	2.33	3.96
1½ to 2 years.....(12/1/65)	19.51	39.02	58.53	78.04	156.08	390.20	780.40	7,804	2.67	4.41
2 to 2½ years.....(6/1/66)	19.91	39.82	59.73	79.64	159.28	398.20	796.40	7,964	3.02	4.43
2½ to 3 years.....(12/1/66)	20.30	40.60	60.90	81.20	162.40	406.00	812.00	8,120	3.20	4.48
3 to 3½ years.....(6/1/67)	20.69	41.38	62.07	82.76	165.52	413.80	827.60	8,276	3.31	4.55
3½ to 4 years.....(12/1/67)	21.12	42.24	63.36	84.48	168.96	422.40	844.80	8,448	3.43	4.60
4 to 4½ years.....(6/1/68)	21.59	43.18	64.77	86.36	172.72	431.80	863.60	8,636	3.56	4.72
4½ to 5 years.....(12/1/68)	22.08	44.16	66.24	88.32	176.64	441.60	883.20	8,832	3.67	4.75
5 to 5½ years.....(6/1/69)	22.58	45.16	67.74	90.32	180.64	451.60	903.20	9,032	3.75	4.79
5½ to 6 years.....(12/1/69)	23.09	46.18	69.27	92.36	184.72	461.80	923.60	9,236	3.82	4.85
6 to 6½ years.....(6/1/70)	23.62	47.24	70.86	94.48	188.96	472.40	944.80	9,448	3.89	4.93
6½ to 7 years.....(12/1/70)	24.17	48.34	72.51	96.68	193.36	483.40	966.80	9,668	3.94	5.03
7 to 7½ years.....(6/1/71)	24.74	49.48	74.22	98.96	197.92	494.80	989.60	9,896	4.00	5.25
7½ years to 7 years and 9 months.....(12/1/71)	25.32	50.64	75.96	101.28	202.56	506.40	1,012.80	10,128	4.05	6.37
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>3</sup> .....(3/1/72)	25.72	51.44	77.16	102.88	205.76	514.40	1,028.80	10,288	4.12	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.

<sup>2</sup> Month, day, and year on which issues of June 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.

<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.

<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

**TABLE 61**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1964, THROUGH MAY 1, 1965**

BONDS BEARING INTEREST DATES FROM DECEMBER 1, 1964, THROUGH MAY 1, 1969										
Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield	
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000		
Period after issue date	(1) Redemption values during each half-year period <sup>1</sup> (values increase on first day of period shown)								(2) On purchase price from issue date to beginning of each half-year period <sup>1</sup> to maturity	(3) On current redemption value from beginning of each half-year period <sup>1</sup> to maturity
									Percent	Percent
First ½ year..... <sup>2</sup> (12/1/64)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	0.00	3.75
½ to 1 year.....(6/1/65)	18.91	37.82	56.73	75.64	151.28	378.20	756.40	7,564	1.71	3.89
1 to 1½ years.....(12/1/65)	19.19	38.38	57.57	76.76	153.52	383.80	767.60	7,676	2.33	4.36
1½ to 2 years.....(6/1/66)	19.52	39.04	58.56	78.08	156.16	390.40	780.80	7,808	2.70	4.43
2 to 2½ years.....(12/1/66)	19.92	39.84	59.76	79.68	159.36	398.40	796.80	7,968	3.05	4.46
2½ to 3 years.....(6/1/67)	20.31	40.62	60.93	81.24	162.48	406.20	812.40	8,124	3.22	4.51
3 to 3½ years.....(12/1/67)	20.71	41.42	62.13	82.84	165.68	414.20	828.40	8,284	3.34	4.57
3½ to 4 years.....(6/1/68)	21.15	42.30	63.45	84.60	169.20	423.00	846.00	8,460	3.47	4.71
4 to 4½ years.....(12/1/68)	21.61	43.22	64.83	86.44	172.88	432.20	864.40	8,644	3.58	4.76
4½ to 5 years.....(6/1/69)	22.11	44.22	66.33	88.44	176.88	442.20	884.40	8,844	3.70	4.78
5 to 5½ years.....(12/1/69)	22.61	45.22	67.83	90.44	180.88	452.20	904.40	9,044	3.78	4.83
5½ to 6 years.....(6/1/70)	23.13	46.26	69.39	92.52	185.04	462.60	925.20	9,252	3.85	4.88
6 to 6½ years.....(12/1/70)	23.67	47.34	71.01	94.68	189.36	473.40	946.80	9,468	3.92	4.94
6½ to 7 years.....(6/1/71)	24.22	48.44	72.66	96.88	193.76	484.40	968.80	9,688	3.98	5.06
7 to 7½ years.....(12/1/71)	24.79	49.58	74.37	99.16	198.32	495.80	991.60	9,916	4.03	5.29
7½ years to 7 years and 9 months.....(6/1/72)	25.37	50.74	76.11	101.48	202.96	507.40	1,014.80	10,148	4.07	6.52
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>3</sup> .....(9/1/72)	25.78	51.56	77.34	103.12	206.24	515.60	1,031.20	10,312	4.15	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.

<sup>2</sup> Month, day, and year on which issues of December 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.

<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.

<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

**TABLE 62**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1965**

Issue price Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period <sup>1</sup>	(3) On current re- demption value from beginning of each half- year period <sup>1</sup> to maturity
First ½ year..... <sup>2</sup> (6/1/65)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent 3.75
½ to 1 year.....(12/1/65)	18.91	37.82	56.73	75.64	151.28	378.20	756.40	7,564	1.71	4.29
1 to 1½ years.....(6/1/66)	19.20	38.40	57.60	76.80	153.60	384.00	768.00	7,680	2.39	4.38
1½ to 2 years.....(12/1/66)	19.53	39.06	58.59	78.12	156.24	390.60	781.20	7,812	2.74	4.45
2 to 2½ years.....(6/1/67)	19.93	39.86	59.79	79.72	159.44	398.60	797.20	7,972	3.08	4.49
2½ to 3 years.....(12/1/67)	20.32	40.64	60.96	81.28	162.56	406.40	812.80	8,128	3.24	4.54
3 to 3½ years.....(6/1/68)	20.73	41.46	62.19	82.92	165.84	414.60	829.20	8,292	3.37	4.69
3½ to 4 years.....(12/1/68)	21.17	42.34	63.51	84.68	169.36	423.40	846.80	8,468	3.50	4.75
4 to 4½ years.....(6/1/69)	21.65	43.30	64.95	86.60	173.20	433.00	866.00	8,660	3.63	4.77
4½ to 5 years.....(12/1/69)	22.14	44.28	66.42	88.56	177.12	442.80	885.60	8,856	3.73	4.81
5 to 5½ years.....(6/1/70)	22.65	45.30	67.95	90.60	181.20	453.00	906.00	9,060	3.82	4.85
5½ to 6 years.....(12/1/70)	23.18	46.36	69.54	92.72	185.44	463.60	927.20	9,272	3.89	4.89
6 to 6½ years.....(6/1/71)	23.71	47.42	71.13	94.84	189.68	474.20	948.40	9,484	3.95	4.98
6½ to 7 years.....(12/1/71)	24.26	48.52	72.78	97.04	194.08	485.20	970.40	9,704	4.00	5.11
7 to 7½ years.....(6/1/72)	24.84	49.68	74.52	99.36	198.72	496.80	993.60	9,936	4.06	5.33
7½ years to 7 years and 9 months.....(12/1/72)	25.42	50.84	76.26	101.68	203.36	508.40	1,016.80	10,168	4.10	6.66
<b>MATURITY VALUE</b> (7 years and 9 months from issue date) <sup>3</sup> .....(3/1/73)	25.84	51.68	77.52	103.36	206.72	516.80	1,033.60	10,336	4.18	-----

<sup>1</sup> 3-month period in the case of the 7½-year to 7-year and 9-month period.<sup>2</sup> Month, day, and year on which issues of June 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.<sup>4</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>5</sup> Maturity value improved by the revision of June 1, 1968.

**TABLE 63**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1965, THROUGH MAY 1, 1966**

Issue price Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period <sup>1</sup>	(3) On current re- demption value from beginning of each half- year period to maturity
First ½ year..... <sup>1</sup> (12/1/65)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent 4.15
½ to 1 year.....(6/1/66)	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	4.30
1 to 1½ years.....(12/1/66)	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	4.34
1½ to 2 years.....(6/1/67)	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4.48
2 to 2½ years.....(12/1/67)	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4.41
2½ to 3 years.....(6/1/68)	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4.55
3 to 3½ years.....(12/1/68)	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4.58
3½ to 4 years.....(6/1/69)	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4.60
4 to 4½ years.....(12/1/69)	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4.64
4½ to 5 years.....(6/1/70)	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4.69
5 to 5½ years.....(12/1/70)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4.77
5½ to 6 years.....(6/1/71)	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4.90
6 to 6½ years.....(12/1/71)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	5.13
6½ to 7 years.....(6/1/72)	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	5.73
<b>MATURITY VALUE</b> (7 years from issue date) <sup>2</sup> .....(12/1/72)	25.12	50.24	75.36	100.48	200.96	502.40	1,004.80	10,048	4.22	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1965, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>3</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 64

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1966

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period	(3) On current re- demption value from beginning of each half- year period to maturity
First ½ year..... <sup>1</sup> (6/1/66)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent 2 4.15
½ to 1 year..... (12/1/66)	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	2 4.30
1 to 1½ years..... (6/1/67)	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	2 4.34
1½ to 2 years..... (12/1/67)	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	2 4.38
2 to 2½ years..... (6/1/68)	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4 5.52
2½ to 3 years..... (12/1/68)	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4 5.65
3 to 3½ years..... (6/1/69)	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4 5.99
3½ to 4 years..... (12/1/69)	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4 6.62
4 to 4½ years..... (6/1/70)	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4 6.65
4½ to 5 years..... (12/1/70)	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4 7.1
5 to 5½ years..... (6/1/71)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4 7.9
5½ to 6 years..... (12/1/71)	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4 9.3
6 to 6½ years..... (6/1/72)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	5 1.7
6½ to 7 years..... (12/1/72)	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	5 8.1
<b>MATURITY VALUE (7 years from issue date)<sup>2</sup>.....(6/1/73)</b>	<b>25.13</b>	<b>50.26</b>	<b>75.39</b>	<b>100.52</b>	<b>*01.04</b>	<b>502.60</b>	<b>1,005.20</b>	<b>10,052</b>	<b>4.23</b>	<b>-----</b>

<sup>1</sup> Month, day, and year on which issues of June 1, 1966, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>3</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 65

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1966, THROUGH MAY 1, 1967

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period	(3) On current re- demption value from beginning of each half- year period to maturity
First ½ year..... <sup>1</sup> (12/1/66)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent 2 4.15
½ to 1 year..... (6/1/67)	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	2 4.30
1 to 1½ years..... (12/1/67)	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	2 4.34
1½ to 2 years..... (6/1/68)	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4 4.48
2 to 2½ years..... (12/1/68)	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4 5.53
2½ to 3 years..... (6/1/69)	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4 5.66
3 to 3½ years..... (12/1/69)	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4 6.60
3½ to 4 years..... (6/1/70)	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4 6.63
4 to 4½ years..... (12/1/70)	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4 6.7
4½ to 5 years..... (6/1/71)	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4 7.2
5 to 5½ years..... (12/1/71)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4 8.1
5½ to 6 years..... (6/1/72)	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4 9.6
6 to 6½ years..... (12/1/72)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	5 2.1
6½ to 7 years..... (6/1/73)	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	5 9.0
<b>MATURITY VALUE (7 years from issue date)<sup>2</sup>.....(12/1/73)</b>	<b>25.14</b>	<b>50.28</b>	<b>75.42</b>	<b>100.56</b>	<b>201.12</b>	<b>502.80</b>	<b>1,005.60</b>	<b>10,056</b>	<b>4.23</b>	<b>-----</b>

<sup>1</sup> Month, day, and year on which issues of December 1, 1966, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>3</sup> Maturity values improved by the revision of June 1, 1968.



TABLE 66

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1967

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period	(3) On current re- demption value from beginning of each half- year period to maturity
First ½ year..... <sup>1</sup> (6/1/67)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent <sup>2</sup> 1.15
½ to 1 year.....(12/1/67)	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	2.30
1 to 1½ years.....(6/1/68)	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	4.44
1½ to 2 years.....(12/1/68)	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4.49
2 to 2½ years.....(6/1/69)	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4.53
2½ to 3 years.....(12/1/69)	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4.57
3 to 3½ years.....(6/1/70)	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4.61
3½ to 4 years.....(12/1/70)	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4.64
4 to 4½ years.....(6/1/71)	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4.68
4½ to 5 years.....(12/1/71)	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4.74
5 to 5½ years.....(6/1/72)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4.83
5½ to 6 years.....(12/1/72)	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4.98
6 to 6½ years.....(6/1/73)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	5.25
6½ to 7 years.....(12/1/73)	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	5.98
MATURITY VALUE (7 years from issue date) <sup>3</sup> .....(6/1/74)	25.15	50.30	75.45	100.60	201.20	503.00	1,006.00	10,060	4.24	-----

<sup>1</sup> Month, day, and year on which issues of June 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>3</sup> Maturity value improved by the revision of June 1, 1968.

TABLE 67

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1967, THROUGH MAY 1, 1968

Issue price..... Denomination.....	\$18.75 25.00	\$37.50 50.00	\$56.25 75.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate invest- ment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) On purchase price from issue date to begin- ning of each half- year period	(3) On current re- demption value from beginning of each half- year period to maturity
First ½ year..... <sup>1</sup> (12/1/67)	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Percent 0.00	Percent <sup>2</sup> 2.45
½ to 1 year.....(6/1/68)	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	4.40
1 to 1½ years.....(12/1/68)	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	4.45
1½ to 2 years.....(6/1/69)	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4.50
2 to 2½ years.....(12/1/69)	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4.54
2½ to 3 years.....(6/1/70)	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4.58
3 to 3½ years.....(12/1/70)	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4.62
3½ to 4 years.....(6/1/71)	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4.65
4 to 4½ years.....(12/1/71)	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4.70
4½ to 5 years.....(6/1/72)	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4.76
5 to 5½ years.....(12/1/72)	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4.85
5½ to 6 years.....(6/1/73)	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	5.01
6 to 6½ years.....(12/1/73)	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	5.29
6½ to 7 years.....(6/1/74)	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	6.06
MATURITY VALUE (7 years from issue date) <sup>3</sup> .....(12/1/74)	25.16	50.32	75.48	100.64	201.28	503.20	1,006.40	10,064	4.25	-----

<sup>1</sup> Month, day, and year on which issues of December 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.<sup>2</sup> Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.<sup>3</sup> Maturity value improved by the revision of June 1, 1968.

**Exhibit 6.—Amendment, September 5, 1967, of Department Circular No. 750, regulations governing payments by banks and other financial institutions in connection with the redemption of United States savings bonds**

TREASURY DEPARTMENT,  
Washington, September 5, 1967.

Section 321.2 of Department Circular No. 750, Revised, as amended, is further amended by revision as follows:

**Section 321.2. Procedure for qualifying as a paying agent.**

(a) *Application for qualification.*—An eligible institution possessing adequate authority under its charter and desiring to qualify to make payments in connection with the redemption of United States Savings Bonds and the redemption-exchange of such bonds under the provisions of Department Circular No. 1036, as amended (31 CFR Part 339), shall obtain from and file with the Federal Reserve bank of the district in which it is located<sup>1</sup> an application-agreement form<sup>2</sup> designed for that purpose. Through use of the form, the institution agrees to be bound by and comply with these regulations, including all supplements and amendments hereof and instructions issued hereunder. In addition, the terms of any application-agreement filed hereafter and by reason of this paragraph, include the provisions prescribed in section 202 of Executive Order No. 11246, entitled "Equal Employment Opportunity" (3 CFR 167, 1965 Supplement). An institution qualified prior hereto, whether under the revision or the original circular, making payments in connection with the redemption or redemption-exchange of U.S. Savings Bonds, which on or after November 30, 1966, entered into a contract of deposit with the Treasury Department in accordance with Treasury Department Circular No. 92 (Revised) or No. 176 (Revised) (31 CFR Parts 203 or 202), need take no action with respect to its qualification hereunder. Any other institution qualified prior hereto which desires to make payments in connection with the redemption or redemption-exchange of U.S. Savings Bonds on or after December 1, 1967, must signify its intent in writing to be bound by and comply with the provisions of section 202 of the Order.

(b) *Notice of qualification.*—Until such time as a notice of qualification is issued by the Federal Reserve Bank, an institution shall not make any effort to or perform any act as a paying agent of savings bonds, or advertise in any manner that it is authorized to perform such acts, or that it has applied for such qualification. Upon approval of the application-agreement, the Federal Reserve Bank will issue a notice of qualification to the institution, whereupon it will be authorized to redeem U.S. Savings Bonds as provided herein and it will become subject to the provisions of Part II of Executive Order No. 11246. The Federal Reserve Bank will notify the institution if the application-agreement is not approved.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary.*

<sup>1</sup> Institutions in Puerto Rico, the Virgin Islands, and the Canal Zone shall be considered to be in the Second Federal Reserve District and shall make application to the Federal Reserve Bank of New York. Institutions in Guam shall be considered to be in the Twelfth Federal Reserve District and shall make application to the Federal Reserve Bank of San Francisco.

<sup>2</sup> Exhibit A of Department Circular 750, Rev. (31 CFR Part 321).

**Exhibit 7.—Third amendment, June 19, 1968, to Department Circular No. 905, Fourth Revision, offering of United States savings bonds, Series H**

TREASURY DEPARTMENT,  
Washington, June 19, 1968.

Treasury Department Circular No. 905, Fourth Revision, dated April 7, 1966, as revised and amended (31 CFR Part 332), is hereby further amended and revised as follows:

**Sec. 332.1. *Offering of bonds.***—The Secretary of the Treasury hereby offers for sale to the people of the United States, United States Savings Bonds of Series H, hereinafter generally referred to as “Series H bonds” or “bonds.” This offering, which shall be effective June 1, 1968, will continue until terminated by the Secretary of the Treasury.

**Sec. 332.2. *Description of bonds.*** \* \* \*

(e) ***Interest (investment yield).***—The interest on a Series H bond will be paid semiannually by check drawn to the order of the registered owner or co-owners, beginning six months from issue date. Interest payments will be on a graduated scale, fixed to produce an investment yield of approximately 4.25 percent per annum compounded semiannually, if the bond is held to maturity;<sup>1</sup> but the yield will be less if the bond is redeemed prior to maturity. See table 1. Interest will cease at maturity or, in the case of redemption before maturity, at the end of the interest period next preceding the date of redemption, except that if the date of redemption falls on an interest payment date, interest will cease on that date.

(f) ***Stock for bonds issued on and after June 1, 1968.***—Series H bond stock in use prior to June 1, 1968, will be used for issue of bonds hereunder until such time as new stock is printed and supplied to issuing agents. THE NEW INTEREST RATE SHALL APPLY TO SUCH BONDS AS FULLY AS IF EXPRESSLY SET FORTH IN THE TEXT. The Treasury Department will issue interest checks for the bonds in the appropriate amounts as set forth in table 1. Accordingly, it is not necessary for owners to exchange bonds on old stock when the new stock becomes available but they may do so if they wish by presenting bonds issued on and after June 1, 1968, on old stock to any Federal Reserve Bank or Branch, or to the Treasurer of the United States, Securities Division, Washington, D.C. 20220.

**Sec. 332.8. *Extended term and improved yields on outstanding bonds.*** \* \* \*

(b) ***Improved yields.***<sup>2</sup>—The investment yield on outstanding bonds with issue dates of June 1, 1952, through May 1, 1968, is increased by 1/10 of 1 percent per annum compounded semiannually, but only if the bonds are held to the next maturity date. The increase for the remaining time to next maturity will be computed from the beginning of the first interest period starting on or after June 1, 1968. The investment yield for any presently authorized subsequent extension period will be 4.25 percent per annum compounded semiannually if the bonds are held to the maturity date for that period. Interim interest payments remain unchanged. All increases will be reflected in the final interest check for the particular maturity period involved.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary of the Treasury.*

<sup>1</sup> Under authority of Section 25, 73 Stat. 621 (31 U.S.C. 757c-1), the President of the United States on May 31, 1968, concluded that with respect to Series H bonds it was necessary in the national interest to exceed the maximum interest rate and investment yield prescribed by Section 22 of the Second Liberty Bond Act, as amended (31 U.S.C. 757c).

<sup>2</sup> See Sec. 332.8(b) and footnote 5 of Department Circular No. 905, Fourth Revision, as amended (31 CFR Part 332), for earlier yields.

**TABLES OF CHECKS ISSUED AND INVESTMENT YIELDS FOR UNITED STATES SAVINGS BONDS OF SERIES H**

Each table shows: (1) The amounts of interest check payments during the current maturity period and during any authorized subsequent maturity period, on bonds bearing issue dates covered by the table; (2) for each maturity period shown, the approximate investment yield on the face value from the beginning of such maturity period to each subsequent interest payment date; and (3) the approximate investment yield on the face value from each interest payment date to next maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

**TABLE 1**  
**BONDS BEARING ISSUE DATES BEGINNING JUNE 1, 1968**

Face value	Maturity value Redemption value Issue price	\$500 500 500	\$1,000 1,000 1,000	\$5,000 5,000 5,000	\$10,000 10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date		(1) Amounts of interest checks for each denomination				(2) From issue date to each interest payment date	(3) From each interest payment date to maturity
						Percent	Percent
¼ year.....		\$5.50	\$11.00	\$55.00	\$110.00	2.20	4.38
1 year.....		9.70	19.40	97.00	194.00	3.03	4.42
1½ years.....		10.75	21.50	107.50	215.00	3.45	4.42
2 years.....		10.75	21.50	107.50	215.00	3.65	4.43
2½ years.....		10.75	21.50	107.50	215.00	3.78	4.44
3 years.....		10.75	21.50	107.50	215.00	3.86	4.45
3½ years.....		10.75	21.50	107.50	215.00	3.92	4.47
4 years.....		10.75	21.50	107.50	215.00	3.96	4.48
4½ years.....		10.75	21.50	107.50	215.00	4.00	4.50
5 years.....		10.75	21.50	107.50	215.00	4.03	4.53
5½ years.....		10.75	21.50	107.50	215.00	4.05	4.55
6 years.....		10.75	21.50	107.50	215.00	4.07	4.59
6½ years.....		10.75	21.50	107.50	215.00	4.08	4.63
7 years.....		10.75	21.50	107.50	215.00	4.10	4.69
7½ years.....		10.75	21.50	107.50	215.00	4.11	4.75
8 years.....		10.75	21.50	107.50	215.00	4.12	4.91
8½ years.....		10.75	21.50	107.50	215.00	4.13	5.12
9 years.....		10.75	21.50	107.50	215.00	4.13	5.54
9½ years.....		10.75	21.50	107.50	215.00	4.14	6.81
10 years (maturity).....		17.03	34.06	170.30	340.60	4.25	-----

<sup>1</sup> At all times, except that bond is not redeemable during first 6 months.

**TABLE 2**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1952**

Face value	Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD				Percent	Percent
¼ year.....	(8/1/62)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 3.75
1 year.....	(2/1/63)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
1½ years.....	(8/1/63)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2 years.....	(2/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2½ years.....	(8/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3 years.....	(2/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3½ years.....	(8/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
4 years.....	(2/1/66)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
4½ years.....	(8/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>2</sup> 4.19
5 years.....	(2/1/67)	9.55	19.10	95.50	191.00	3.76	<sup>2</sup> 4.23
5½ years.....	(8/1/67)	9.55	19.10	95.50	191.00	3.77	<sup>2</sup> 4.28
6 years.....	(2/1/68)	10.15	20.30	101.50	203.00	3.79	<sup>2</sup> 4.31
6½ years.....	(8/1/68)	10.15	20.30	101.50	203.00	3.81	<sup>2</sup> 4.44
7 years.....	(2/1/69)	10.15	20.30	101.50	203.00	3.82	<sup>2</sup> 4.51
7½ years.....	(8/1/69)	10.60	21.20	106.00	212.00	3.85	<sup>2</sup> 4.57
8 years.....	(2/1/70)	10.60	21.20	106.00	212.00	3.87	<sup>2</sup> 4.66
8½ years.....	(8/1/70)	10.60	21.20	106.00	212.00	3.89	<sup>2</sup> 4.80
9 years.....	(2/1/71)	11.40	22.80	114.00	228.00	3.92	<sup>2</sup> 4.93
9½ years.....	(8/1/71)	11.40	22.80	114.00	228.00	3.95	<sup>2</sup> 5.31
10 years (extended maturity) <sup>1</sup> .....	(2/1/72)	13.28	26.56	132.80	265.60	<sup>2</sup> 4.00	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of June 1, 1952. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1955 revision.

<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> In years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>5</sup> Yield on purchase price from issue date to extended maturity is 3.43 percent.



**TABLE 3**  
**BONDS BEARING ISSUE DATES FROM OCTOBER 1, 1952 THROUGH MARCH 1, 1953**

Face value	Issue price (Redemption and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD				Percent	Percent
1½ year.....	<sup>1</sup> (12/1/62)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 3.75
1 year.....	(6/1/63)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
1½ years.....	(12/1/63)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2 years.....	(6/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2½ years.....	(12/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3 years.....	(6/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3½ years.....	(12/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
4 years.....	(6/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>2</sup> 3.76
4½ years.....	(12/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>2</sup> 3.76
5 years.....	(6/1/67)	9.55	19.10	95.50	191.00	3.77	<sup>2</sup> 3.77
5½ years.....	(12/1/67)	10.05	20.10	100.50	201.00	3.79	<sup>2</sup> 3.29
6 years.....	(6/1/68)	10.05	20.10	100.50	201.00	3.81	4.43
6½ years.....	(12/1/68)	10.05	20.10	100.50	201.00	3.82	4.50
7 years.....	(6/1/69)	10.60	21.20	106.00	212.00	3.85	4.54
7½ years.....	(12/1/69)	10.60	21.20	106.00	212.00	3.87	4.61
8 years.....	(6/1/70)	10.60	21.20	106.00	212.00	3.89	4.70
8½ years.....	(12/1/70)	10.60	21.20	106.00	212.00	3.91	4.86
9 years.....	(6/1/71)	11.45	22.90	114.50	229.00	3.94	5.01
9½ years.....	(12/1/71)	11.45	22.90	114.50	229.00	3.97	5.45
10 years (extended maturity) <sup>4</sup>	(6/1/72)	13.62	27.24	136.20	272.40	<sup>3</sup> 4.03	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of October 1, 1952. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1963 revision.

<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.  
<sup>4</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: October 1 and November 1, 1952 is 3.59 percent; December 1, 1952 through March 1, 1953 is 3.52 percent.

**TABLE 4**  
**BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH SEPTEMBER 1, 1953**

Face value	Issue price (Redemption and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD				Percent	Percent
1½ year.....	<sup>1</sup> (6/1/63)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 3.75
1 year.....	(12/1/63)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
1½ years.....	(6/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2 years.....	(12/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2½ years.....	(6/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3 years.....	(12/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
3½ years.....	(6/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>2</sup> 3.76
4 years.....	(12/1/66)	9.55	19.10	95.50	191.00	3.77	<sup>2</sup> 3.77
4½ years.....	(6/1/67)	9.55	19.10	95.50	191.00	3.77	<sup>2</sup> 3.27
5 years.....	(12/1/67)	10.00	20.00	100.00	200.00	3.79	<sup>2</sup> 3.28
5½ years.....	(6/1/68)	10.00	20.00	100.00	200.00	3.81	4.42
6 years.....	(12/1/68)	10.00	20.00	100.00	200.00	3.82	4.48
6½ years.....	(6/1/69)	10.50	21.00	105.00	210.00	3.85	4.52
7 years.....	(12/1/69)	10.50	21.00	105.00	210.00	3.87	4.58
7½ years.....	(6/1/70)	10.50	21.00	105.00	210.00	3.89	4.66
8 years.....	(12/1/70)	10.50	21.00	105.00	210.00	3.91	4.78
8½ years.....	(6/1/71)	11.35	22.70	113.50	227.00	3.94	4.86
9 years.....	(12/1/71)	11.35	22.70	113.50	227.00	3.97	5.03
9½ years.....	(6/1/72)	11.35	22.70	113.50	227.00	3.99	5.53
10 years (extended maturity) <sup>4</sup>	(12/1/72)	13.82	27.64	138.20	276.40	<sup>3</sup> 4.05	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of April 1, 1953. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1963 revision.

<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: April 1 and May 1, 1953 is 3.53 percent; June 1 through September 1, 1953 is 3.54 percent.

**TABLE 5**  
**BONDS BEARING ISSUE DATES FROM OCTOBER 1, 1953 THROUGH MARCH 1, 1954**

Face value/Issue price (Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
¼ year..... <sup>1</sup> (12/1/63)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 3.75
1 year.....(6/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
1½ years.....(12/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2 years.....(6/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2½ years.....(12/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>3</sup> 4.15
3 years.....(6/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>3</sup> 4.18
3½ years.....(12/1/66)	9.55	19.10	95.50	191.00	3.77	<sup>3</sup> 4.21
4 years.....(6/1/67)	9.55	19.10	95.50	191.00	3.78	<sup>3</sup> 4.25
4½ years.....(12/1/67)	9.95	19.90	99.50	199.00	3.80	<sup>3</sup> 4.27
5 years.....(6/1/68)	9.95	19.90	99.50	199.00	3.81	<sup>4</sup> 4.41
5½ years.....(12/1/68)	9.95	19.90	99.50	199.00	3.83	<sup>4</sup> 4.46
6 years.....(6/1/69)	10.45	20.90	104.50	209.00	3.85	<sup>4</sup> 4.50
6½ years.....(12/1/69)	10.45	20.90	104.50	209.00	3.88	<sup>4</sup> 4.55
7 years.....(6/1/70)	10.45	20.90	104.50	209.00	3.89	<sup>4</sup> 4.62
7½ years.....(12/1/70)	10.45	20.90	104.50	209.00	3.91	<sup>4</sup> 4.71
8 years.....(6/1/71)	10.45	20.90	104.50	209.00	3.93	<sup>4</sup> 4.85
8½ years.....(12/1/71)	11.45	22.90	114.50	229.00	3.96	<sup>4</sup> 4.94
9 years.....(6/1/72)	11.45	22.90	114.50	229.00	3.99	<sup>5</sup> 5.13
9½ years.....(12/1/72)	11.45	22.90	114.50	229.00	4.01	<sup>5</sup> 5.69
10 years (extended maturity) <sup>4</sup> .....(6/1/73)	14.23	28.46	142.30	284.60	\$ 4.08	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of October 1, 1953. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1963 revision.

<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: October 1 and November 1, 1953 is 3.55 percent; December 1, 1953 through March 1, 1954 is 3.57 percent.

**TABLE 6**  
**BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH SEPTEMBER 1, 1954**

Face value/Issue price (Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
¼ year..... <sup>1</sup> (6/1/64)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 3.75
1 year.....(12/1/64)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
1½ years.....(6/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>2</sup> 3.75
2 years.....(12/1/65)	9.37	18.75	93.75	187.50	3.75	<sup>3</sup> 4.15
2½ years.....(6/1/66)	9.55	19.10	95.50	191.00	3.76	<sup>3</sup> 4.18
3 years.....(12/1/66)	9.55	19.10	95.50	191.00	3.77	<sup>3</sup> 4.20
3½ years.....(6/1/67)	9.55	19.10	95.50	191.00	3.78	<sup>3</sup> 4.24
4 years.....(12/1/67)	9.55	19.10	95.50	191.00	3.78	<sup>3</sup> 4.28
4½ years.....(6/1/68)	10.15	20.30	101.50	203.00	3.81	<sup>4</sup> 4.40
5 years.....(12/1/68)	10.15	20.30	101.50	203.00	3.83	<sup>4</sup> 4.44
5½ years.....(6/1/69)	10.15	20.30	101.50	203.00	3.85	<sup>4</sup> 4.49
6 years.....(12/1/69)	10.15	20.30	101.50	203.00	3.87	<sup>4</sup> 4.54
6½ years.....(6/1/70)	10.60	21.20	106.00	212.00	3.89	<sup>4</sup> 4.59
7 years.....(12/1/70)	10.60	21.20	106.00	212.00	3.92	<sup>4</sup> 4.66
7½ years.....(6/1/71)	10.60	21.20	106.00	212.00	3.93	<sup>4</sup> 4.74
8 years.....(12/1/71)	10.60	21.20	106.00	212.00	3.95	<sup>4</sup> 4.88
8½ years.....(6/1/72)	11.45	22.90	114.50	229.00	3.98	<sup>4</sup> 4.98
9 years.....(12/1/72)	11.45	22.90	114.50	229.00	4.01	<sup>5</sup> 5.19
9½ years.....(6/1/73)	11.45	22.90	114.50	229.00	4.03	<sup>5</sup> 5.82
10 years (extended maturity) <sup>4</sup> .....(12/1/73)	14.54	29.08	145.40	290.80	\$ 4.11	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of April 1, 1954. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1965 revision.

<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: April 1 and May 1, 1954 is 3.58 percent; June 1 through September 1, 1954 is 3.59 percent.

TABLE 7

<sup>1</sup> Month, day, and year on which interest check is payable on issues of October 1, 1954. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1955 revision.  
<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.  
<sup>4</sup> 10 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.  
<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: October 1 and November 1, 1954 is 3.80 percent; December 1, 1954 through March 1, 1955 is 3.62 percent.

TABLE 8

<sup>1</sup> Month, day, and year on which interest check is payable on issues of April 1, 1955. For subsequent issue months add the appropriate number of months.  
<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the original schedule of interest checks prior to the December 1, 1965 revision.  
<sup>3</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.  
<sup>4</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.  
<sup>5</sup> Yield from issue date to extended maturity date on bonds dated: April 1 and May 1, 1955 is 3.63 percent; June 1 through September 1, 1955 is 3.64 percent.

**TABLE 9**  
**BONDS BEARING ISSUE DATES FROM OCTOBER 1, 1955 THROUGH MARCH 1, 1956**

Face value (Issue price ----- Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
1/2 year ----- <sup>1</sup> (12/1/65)	\$9.37	\$18.75	\$93.75	\$187.50	3.75	<sup>2</sup> 4.15
1 year ----- (6/1/66)	9.55	19.10	95.50	191.00	3.78	<sup>2</sup> 4.17
1 1/2 years ----- (12/1/66)	9.55	19.10	95.50	191.00	3.80	<sup>2</sup> 4.20
2 years ----- (6/1/67)	9.55	19.10	95.50	191.00	3.80	<sup>2</sup> 4.23
2 1/2 years ----- (12/1/67)	9.55	19.10	95.50	191.00	3.81	<sup>2</sup> 4.26
3 years ----- (6/1/68)	10.00	20.00	100.00	200.00	3.84	4.28
3 1/2 years ----- (12/1/68)	10.00	20.00	100.00	200.00	3.86	4.42
4 years ----- (6/1/69)	10.00	20.00	100.00	200.00	3.87	4.45
4 1/2 years ----- (12/1/69)	10.00	20.00	100.00	200.00	3.89	4.50
5 years ----- (6/1/70)	10.00	20.00	100.00	200.00	3.90	4.56
5 1/2 years ----- (12/1/70)	10.65	21.30	106.50	213.00	3.93	4.59
6 years ----- (6/1/71)	10.65	21.30	106.50	213.00	3.95	4.64
6 1/2 years ----- (12/1/71)	10.65	21.30	106.50	213.00	3.97	4.70
7 years ----- (6/1/72)	10.65	21.30	106.50	213.00	3.99	4.78
7 1/2 years ----- (12/1/72)	10.65	21.30	106.50	213.00	4.01	4.89
8 years ----- (6/1/73)	11.45	22.90	114.50	229.00	4.04	4.97
8 1/2 years ----- (12/1/73)	11.45	22.90	114.50	229.00	4.06	5.11
9 years ----- (6/1/74)	11.45	22.90	114.50	229.00	4.09	5.38
9 1/2 years ----- (12/1/74)	11.45	22.90	114.50	229.00	4.11	6.21
10 years (extended maturity) <sup>3</sup> ----- (6/1/75)	15.52	31.04	155.20	310.40	<sup>4</sup> 4.19	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of October 1, 1955. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1958 revision.

<sup>3</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield from issue date to extended maturity date on bonds dated: October 1 and November 1, 1955 is 3.66 percent; December 1, 1955 through March 1, 1956 is 3.67 percent.

**TABLE 10**  
**BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1956**

Face value (Issue price ----- Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
1/2 year ----- <sup>1</sup> (6/1/66)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	<sup>2</sup> 4.15
1 year ----- (12/1/66)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
1 1/2 years ----- (6/1/67)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
2 years ----- (12/1/67)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
2 1/2 years ----- (6/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
3 years ----- (12/1/68)	10.37	20.75	103.75	207.50	4.15	4.26
3 1/2 years ----- (6/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
4 years ----- (12/1/69)	10.37	20.75	103.75	207.50	4.15	4.28
4 1/2 years ----- (6/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
5 years ----- (12/1/70)	10.38	20.75	103.75	207.50	4.15	4.31
5 1/2 years ----- (6/1/71)	10.38	20.75	103.75	207.50	4.15	4.33
6 years ----- (12/1/71)	10.38	20.75	103.75	207.50	4.15	4.35
6 1/2 years ----- (6/1/72)	10.38	20.75	103.75	207.50	4.15	4.38
7 years ----- (12/1/72)	10.38	20.75	103.75	207.50	4.15	4.43
7 1/2 years ----- (6/1/73)	10.38	20.75	103.75	207.50	4.15	4.48
8 years ----- (12/1/73)	10.38	20.75	103.75	207.50	4.15	4.57
8 1/2 years ----- (6/1/74)	10.38	20.75	103.75	207.50	4.15	4.72
9 years ----- (12/1/74)	10.38	20.75	103.75	207.50	4.15	5.01
9 1/2 years ----- (6/1/75)	10.38	20.75	103.75	207.50	4.15	5.90
10 years (extended maturity) <sup>3</sup> ----- (12/1/75)	14.74	29.48	147.40	294.80	<sup>4</sup> 4.22	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of April 1, 1956. For issues of May 1, 1956 add one month.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.68 percent.



**TABLE 11**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1956**

Face value	Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD					
						Percent	Percent
½ year	1 (8/1/66)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	2 4.15
1 year	(2/1/67)	10.37	20.75	103.75	207.50	4.15	2 4.15
1½ years	(8/1/67)	10.37	20.75	103.75	207.50	4.15	2 4.15
2 years	(2/1/68)	10.37	20.75	103.75	207.50	4.15	2 4.15
2½ years	(8/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
3 years	(2/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
3½ years	(8/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
4 years	(2/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
4½ years	(8/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
5 years	(2/1/71)	10.38	20.75	103.75	207.50	4.15	4.31
5½ years	(8/1/71)	10.38	20.75	103.75	207.50	4.15	4.33
6 years	(2/1/72)	10.38	20.75	103.75	207.50	4.15	4.35
6½ years	(8/1/72)	10.38	20.75	103.75	207.50	4.15	4.38
7 years	(2/1/73)	10.38	20.75	103.75	207.50	4.15	4.43
7½ years	(8/1/73)	10.38	20.75	103.75	207.50	4.15	4.48
8 years	(2/1/74)	10.38	20.75	103.75	207.50	4.15	4.57
8½ years	(8/1/74)	10.38	20.75	103.75	207.50	4.15	4.72
9 years	(2/1/75)	10.38	20.75	103.75	207.50	4.15	5.01
9½ years	(8/1/75)	10.38	20.75	103.75	207.50	4.15	5.90
10 years (extended maturity) <sup>3</sup>	(2/1/76)	14.74	29.48	147.40	294.80	4 4.22	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of June 1, 1956. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.70 percent.

**TABLE 12**  
**BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1956**

Face value	Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD					
						Percent	Percent
½ year	1 (12/1/66)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	2 4.15
1 year	(6/1/67)	10.37	20.75	103.75	207.50	4.15	2 4.15
1½ years	(12/1/67)	10.37	20.75	103.75	207.50	4.15	2 4.15
2 years	(6/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
2½ years	(12/1/68)	10.37	20.75	103.75	207.50	4.15	4.26
3 years	(6/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
3½ years	(12/1/69)	10.37	20.75	103.75	207.50	4.15	4.28
4 years	(6/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
4½ years	(12/1/70)	10.37	20.75	103.75	207.50	4.15	4.30
5 years	(6/1/71)	10.38	20.75	103.75	207.50	4.15	4.32
5½ years	(12/1/71)	10.38	20.75	103.75	207.50	4.15	4.34
6 years	(6/1/72)	10.38	20.75	103.75	207.50	4.15	4.37
6½ years	(12/1/72)	10.38	20.75	103.75	207.50	4.15	4.40
7 years	(6/1/73)	10.38	20.75	103.75	207.50	4.15	4.43
7½ years	(12/1/73)	10.38	20.75	103.75	207.50	4.15	4.51
8 years	(6/1/74)	10.38	20.75	103.75	207.50	4.15	4.61
8½ years	(12/1/74)	10.38	20.75	103.75	207.50	4.15	4.76
9 years	(6/1/75)	10.38	20.75	103.75	207.50	4.15	5.08
9½ years	(12/1/75)	10.38	20.75	103.75	207.50	4.15	6.03
10 years (extended maturity) <sup>3</sup>	(6/1/76)	15.09	30.17	150.90	301.70	4 4.23	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of October 1, 1956. For issues of November 1, 1956 add one month.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.70 percent.

**TABLE 13**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1956 THROUGH JANUARY 1, 1957**

Face value   Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
½ year..... <sup>1</sup> (2/1/67)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	<sup>2</sup> 4.15
1 year.....(8/1/67)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
1½ years.....(2/1/68)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
2 years.....(8/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
2½ years.....(2/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
3 years.....(8/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
3½ years.....(2/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
4 years.....(8/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
4½ years.....(2/1/71)	10.37	20.75	103.75	207.50	4.15	4.30
5 years.....(8/1/71)	10.38	20.75	103.75	207.50	4.15	4.32
5½ years.....(2/1/72)	10.38	20.75	103.75	207.50	4.15	4.34
6 years.....(8/1/72)	10.38	20.75	103.75	207.50	4.15	4.37
6½ years.....(2/1/73)	10.38	20.75	103.75	207.50	4.15	4.40
7 years.....(8/1/73)	10.38	20.75	103.75	207.50	4.15	4.45
7½ years.....(2/1/74)	10.38	20.75	103.75	207.50	4.15	4.51
8 years.....(8/1/74)	10.38	20.75	103.75	207.50	4.15	4.61
8½ years.....(2/1/75)	10.38	20.75	103.75	207.50	4.15	4.76
9 years.....(8/1/75)	10.38	20.75	103.75	207.50	4.15	5.08
9½ years.....(2/1/76)	10.38	20.75	103.75	207.50	4.15	6.03
10 years (extended maturity) <sup>3</sup> .....(8/1/76)	15.09	30.17	150.90	301.70	<sup>4</sup> 4.23	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of December 1, 1956. For issues of January 1, 1957 add one month.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 19 years and 8 months after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.73 percent.

**TABLE 14**  
**BONDS BEARING ISSUE DATES FROM FEBRUARY 1 THROUGH MAY 1, 1957**

Face value   Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
	EXTENDED MATURITY PERIOD				Percent	Percent
½ year..... <sup>1</sup> (8/1/67)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	<sup>2</sup> 4.15
1 year.....(2/1/68)	10.37	20.75	103.75	207.50	4.15	<sup>2</sup> 4.15
1½ years.....(8/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
2 years.....(2/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
2½ years.....(8/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
3 years.....(2/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
3½ years.....(8/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
4 years.....(2/1/71)	10.37	20.75	103.75	207.50	4.15	4.30
4½ years.....(8/1/71)	10.37	20.75	103.75	207.50	4.15	4.31
5 years.....(2/1/72)	10.38	20.75	103.75	207.50	4.15	4.33
5½ years.....(8/1/72)	10.38	20.75	103.75	207.50	4.15	4.36
6 years.....(2/1/73)	10.38	20.75	103.75	207.50	4.15	4.38
6½ years.....(8/1/73)	10.38	20.75	103.75	207.50	4.15	4.42
7 years.....(2/1/74)	10.38	20.75	103.75	207.50	4.15	4.47
7½ years.....(8/1/74)	10.38	20.75	103.75	207.50	4.15	4.54
8 years.....(2/1/75)	10.38	20.75	103.75	207.50	4.15	4.64
8½ years.....(8/1/75)	10.38	20.75	103.75	207.50	4.15	4.81
9 years.....(2/1/76)	10.38	20.75	103.75	207.50	4.15	5.15
9½ years.....(8/1/76)	10.38	20.75	103.75	207.50	4.15	6.17
10 years (extended maturity) <sup>3</sup> .....(2/1/77)	15.44	30.87	154.40	308.70	<sup>4</sup> 4.23	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of February 1, 1957. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 20 years after issue date. Final check at extended maturity improved by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.88 percent.

**TABLE 15**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1957**

Face value	Issue price (Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD				Percent	Percent
½ year.....	<sup>1</sup> (12/1/67)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	<sup>2</sup> 4.15
1 year.....	(6/1/68)	10.37	20.75	103.75	207.50	4.15	4.25
1½ years.....	(12/1/68)	10.37	20.75	103.75	207.50	4.15	4.26
2 years.....	(6/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
2½ years.....	(12/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
3 years.....	(6/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
3½ years.....	(12/1/70)	10.37	20.75	103.75	207.50	4.15	4.30
4 years.....	(6/1/71)	10.37	20.75	103.75	207.50	4.15	4.31
4½ years.....	(12/1/71)	10.37	20.75	103.75	207.50	4.15	4.33
5 years.....	(6/1/72)	10.38	20.75	103.75	207.50	4.15	4.35
5½ years.....	(12/1/72)	10.38	20.75	103.75	207.50	4.15	4.37
6 years.....	(6/1/73)	10.38	20.75	103.75	207.50	4.15	4.40
6½ years.....	(12/1/73)	10.38	20.75	103.75	207.50	4.15	4.44
7 years.....	(6/1/74)	10.38	20.75	103.75	207.50	4.15	4.49
7½ years.....	(12/1/74)	10.38	20.75	103.75	207.50	4.15	4.56
8 years.....	(6/1/75)	10.38	20.75	103.75	207.50	4.15	4.67
8½ years.....	(12/1/75)	10.38	20.75	103.75	207.50	4.15	4.85
9 years.....	(6/1/76)	10.38	20.75	103.75	207.50	4.15	5.22
9½ years.....	(12/1/76)	10.38	20.75	103.75	207.50	4.15	6.32
10 years (extended maturity) <sup>3</sup> .....	(6/1/77)	15.79	31.58	157.90	315.80	<sup>4</sup> 4.24	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of June 1, 1957. For subsequent issue months add the appropriate number of months.

<sup>2</sup> Yield on face value from each interest payment date to extended maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>3</sup> 20 years after issue date. Final check at extended maturity imposed by revision of June 1, 1968.

<sup>4</sup> Yield on purchase price from issue date to extended maturity is 3.91 percent.

**TABLE 16**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1957 THROUGH MAY 1, 1958**

Face value	Issue price (Redemption and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From begin- ning of extended maturity period to each interest payment date	(3) From each interest payment date to extended maturity
		EXTENDED MATURITY PERIOD				Percent	Percent
½ year.....	<sup>1</sup> (6/1/68)	\$10.37	\$20.75	\$103.75	\$207.50	4.15	4.25
1 year.....	(12/1/68)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years.....	(6/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
2 years.....	(12/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
2½ years.....	(6/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
3 years.....	(12/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
3½ years.....	(6/1/71)	10.37	20.75	103.75	207.50	4.15	4.31
4 years.....	(12/1/71)	10.37	20.75	103.75	207.50	4.15	4.32
4½ years.....	(6/1/72)	10.37	20.75	103.75	207.50	4.15	4.34
5 years.....	(12/1/72)	10.38	20.75	103.75	207.50	4.15	4.36
5½ years.....	(6/1/73)	10.38	20.75	103.75	207.50	4.15	4.39
6 years.....	(12/1/73)	10.38	20.75	103.75	207.50	4.15	4.42
6½ years.....	(6/1/74)	10.38	20.75	103.75	207.50	4.15	4.46
7 years.....	(12/1/74)	10.38	20.75	103.75	207.50	4.15	4.51
7½ years.....	(6/1/75)	10.38	20.75	103.75	207.50	4.15	4.59
8 years.....	(12/1/75)	10.38	20.75	103.75	207.50	4.15	4.71
8½ years.....	(6/1/76)	10.38	20.75	103.75	207.50	4.15	4.90
9 years.....	(12/1/76)	10.38	20.75	103.75	207.50	4.15	5.29
9½ years.....	(6/1/77)	10.38	20.75	103.75	207.50	4.15	6.46
10 years (extended maturity) <sup>2</sup> .....	(12/1/77)	16.16	32.31	161.60	323.10	<sup>3</sup> 4.24	-----

<sup>1</sup> Month, day, and year on which interest check is payable on issues of December 1, 1957. For subsequent issue months add the appropriate number of months.

<sup>2</sup> 20 years after issue date. Final check at extended maturity imposed by revision of June 1, 1968.

<sup>3</sup> Yield on purchase price from issue date to extended maturity is 3.94 percent.

TABLE 17

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1958

Face value / Issue price (Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	Percent
¼ year..... <sup>2</sup> (12/1/58)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.35
1 year.....(6/1/59)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.88
1½ years.....(12/1/59)	8.70	17.40	87.00	174.00	2.65	<sup>3</sup> 3.91
2 years.....(6/1/60)	8.70	17.40	87.00	174.00	2.85	<sup>3</sup> 3.94
2½ years.....(12/1/60)	8.70	17.40	87.00	174.00	2.98	<sup>3</sup> 3.97
3 years.....(6/1/61)	8.70	17.40	87.00	174.00	3.06	<sup>3</sup> 4.01
3½ years.....(12/1/61)	8.70	17.40	87.00	174.00	3.11	<sup>3</sup> 4.06
4 years.....(6/1/62)	9.55	19.10	95.50	191.00	3.20	<sup>3</sup> 4.08
4½ years.....(12/1/62)	9.55	19.10	95.50	191.00	3.26	<sup>3</sup> 4.11
5 years.....(6/1/63)	9.55	19.10	95.50	191.00	3.31	<sup>3</sup> 4.14
5½ years.....(12/1/63)	9.55	19.10	95.50	191.00	3.35	<sup>3</sup> 4.18
6 years.....(6/1/64)	9.55	19.10	95.50	191.00	3.39	<sup>3</sup> 4.23
6½ years.....(12/1/64)	10.30	20.60	103.00	206.00	3.44	<sup>3</sup> 4.25
7 years.....(6/1/65)	10.30	20.60	103.00	206.00	3.48	<sup>3</sup> 4.27
7½ years.....(12/1/65)	10.30	20.60	103.00	206.00	3.52	<sup>3</sup> 4.71
8 years.....(6/1/66)	10.55	21.10	105.50	211.00	3.56	<sup>3</sup> 4.84
8½ years.....(12/1/66)	10.55	21.10	105.50	211.00	3.59	<sup>3</sup> 5.06
9 years.....(6/1/67)	12.65	25.30	126.50	253.00	3.66	<sup>3</sup> 5.06
9½ years.....(12/1/67)	12.65	25.30	126.50	253.00	3.72	<sup>3</sup> 5.06
10 years (maturity).....(6/1/68)	12.65	25.30	126.50	253.00	3.78	-----
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
¼ year.....(12/1/68)	10.37	20.75	103.75	207.50	4.15	4.26
1 year.....(6/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years.....(12/1/69)	10.37	20.75	103.75	207.50	4.15	4.27
2 years.....(6/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years.....(12/1/70)	10.37	20.75	103.75	207.50	4.15	4.29
3 years.....(6/1/71)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years.....(12/1/71)	10.37	20.75	103.75	207.50	4.15	4.32
4 years.....(6/1/72)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years.....(12/1/72)	10.37	20.75	103.75	207.50	4.15	4.35
5 years.....(6/1/73)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years.....(12/1/73)	10.38	20.75	103.75	207.50	4.15	4.40
6 years.....(6/1/74)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years.....(12/1/74)	10.38	20.75	103.75	207.50	4.15	4.48
7 years.....(6/1/75)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years.....(12/1/75)	10.38	20.75	103.75	207.50	4.15	4.62
8 years.....(6/1/76)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years.....(12/1/76)	10.38	20.75	103.75	207.50	4.15	4.95
9 years.....(6/1/77)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years.....(12/1/77)	10.38	20.75	103.75	207.50	4.15	5.36
10 years (extended maturity) <sup>6</sup> .....(6/1/78)	16.53	33.05	165.30	330.50	<sup>7</sup> 4.25	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1958. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the original schedule of interest checks prior to the June 1, 1959 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1963 revision.<sup>5</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>6</sup> 20 years after issue date. Final check at extended maturity improved by revision of June 1, 1968.<sup>7</sup> Yield on purchase price from issue date to extended maturity is 3.97 percent.



TABLE 18

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1958 THROUGH MAY 1, 1959

Face value (Issue price ..... (Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest pay- ment date thereafter	(3) From each interest pay- ment date (a) to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/59)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.85
1 year..... (12/1/59)	7.50	15.00	75.00	150.00	2.30	<sup>3</sup> 3.91
1½ years..... (6/1/60)	8.70	17.40	87.00	174.00	2.68	<sup>3</sup> 3.94
2 years..... (12/1/60)	8.70	17.40	87.00	174.00	2.88	<sup>3</sup> 3.97
2½ years..... (6/1/61)	8.70	17.40	87.00	174.00	3.00	<sup>3</sup> 4.01
3 years..... (12/1/61)	8.70	17.40	87.00	174.00	3.07	<sup>3</sup> 4.05
3½ years..... (6/1/62)	9.45	18.90	94.50	189.00	3.17	<sup>3</sup> 4.08
4 years..... (12/1/62)	9.45	18.90	94.50	189.00	3.24	<sup>3</sup> 4.10
4½ years..... (6/1/63)	9.45	18.90	94.50	189.00	3.30	<sup>3</sup> 4.14
5 years..... (12/1/63)	9.45	18.90	94.50	189.00	3.34	<sup>3</sup> 4.18
5½ years..... (6/1/64)	9.45	18.90	94.50	189.00	3.38	<sup>3</sup> 4.23
6 years..... (12/1/64)	10.25	20.50	102.50	205.00	3.43	<sup>3</sup> 4.24
6½ years..... (6/1/65)	10.25	20.50	102.50	205.00	3.48	<sup>3</sup> 4.26
7 years..... (12/1/65)	10.25	20.50	102.50	205.00	3.52	<sup>3</sup> 4.70
7½ years..... (6/1/66)	10.50	21.00	105.00	210.00	3.56	<sup>3</sup> 4.81
8 years..... (12/1/66)	10.50	21.00	105.00	210.00	3.59	<sup>3</sup> 4.97
8½ years..... (6/1/67)	10.50	21.00	105.00	210.00	3.62	<sup>3</sup> 5.24
9 years..... (12/1/67)	13.10	26.20	131.00	262.00	3.70	<sup>3</sup> 5.24
9½ years..... (6/1/68)	13.10	26.20	131.00	262.00	3.76	5.34
10 years (maturity)..... (12/1/68)	13.35	26.70	133.50	267.00	3.83	-----
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD				(b) To extended maturity	
½ year..... (6/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
1 year..... (12/1/69)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years..... (6/1/70)	10.37	20.75	103.75	207.50	4.15	4.27
2 years..... (12/1/70)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years..... (6/1/71)	10.37	20.75	103.75	207.50	4.15	4.29
3 years..... (12/1/71)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years..... (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.32
4 years..... (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years..... (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.35
5 years..... (12/1/73)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years..... (6/1/74)	10.38	20.75	103.75	207.50	4.15	4.40
6 years..... (12/1/74)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years..... (6/1/75)	10.38	20.75	103.75	207.50	4.15	4.48
7 years..... (12/1/75)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years..... (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.62
8 years..... (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years..... (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.95
9 years..... (12/1/77)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years..... (6/1/78)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) <sup>5</sup> ..... (12/1/78)	16.53	33.05	165.30	330.50	<sup>6</sup> 4.25	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1958. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1962 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>5</sup> 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.<sup>6</sup> Yield on purchase price from issue date to extended maturity is 4.00 percent.

**TABLE 19**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1959**

Face value / Issue price (Redemption <sup>1</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/59)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (6/1/60)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years..... (12/1/60)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years..... (6/1/61)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years..... (12/1/61)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years..... (6/1/62)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years..... (12/1/62)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years..... (6/1/63)	10.00	20.00	100.00	200.00	3.44	<sup>3</sup> 4.00
4½ years..... (12/1/63)	10.00	20.00	100.00	200.00	3.49	<sup>3</sup> 4.00
5 years..... (6/1/64)	10.00	20.00	100.00	200.00	3.54	<sup>3</sup> 4.00
5½ years..... (12/1/64)	10.00	20.00	100.00	200.00	3.58	<sup>3</sup> 4.00
6 years..... (6/1/65)	10.00	20.00	100.00	200.00	3.61	<sup>3</sup> 4.00
6½ years..... (12/1/65)	10.00	20.00	100.00	200.00	3.64	<sup>4</sup> 4.41
7 years..... (6/1/66)	10.20	20.40	102.00	204.00	3.66	<sup>4</sup> 4.47
7½ years..... (12/1/66)	10.20	20.40	102.00	204.00	3.69	<sup>4</sup> 4.50
8 years..... (6/1/67)	10.90	21.80	109.00	218.00	3.72	<sup>4</sup> 4.65
8½ years..... (12/1/67)	10.90	21.80	109.00	218.00	3.76	<sup>4</sup> 4.68
9 years..... (6/1/68)	11.70	23.40	117.00	234.00	3.80	<sup>4</sup> 4.78
9½ years..... (12/1/68)	11.70	23.40	117.00	234.00	3.84	<sup>4</sup> 4.88
10 years (maturity) <sup>5</sup>	12.21	24.42	122.10	244.20	3.88	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1959. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 20**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1959 THROUGH MAY 1, 1960**

Face value / Issue price (Redemption <sup>1</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/60)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (12/1/60)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years..... (6/1/61)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years..... (12/1/61)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years..... (6/1/62)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years..... (12/1/62)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years..... (6/1/63)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years..... (12/1/63)	10.00	20.00	100.00	200.00	3.44	<sup>3</sup> 4.00
4½ years..... (6/1/64)	10.00	20.00	100.00	200.00	3.49	<sup>3</sup> 4.00
5 years..... (12/1/64)	10.00	20.00	100.00	200.00	3.54	<sup>3</sup> 4.00
5½ years..... (6/1/65)	10.00	20.00	100.00	200.00	3.58	<sup>3</sup> 4.00
6 years..... (12/1/65)	10.00	20.00	100.00	200.00	3.61	<sup>4</sup> 4.41
6½ years..... (6/1/66)	10.20	20.40	102.00	204.00	3.64	<sup>4</sup> 4.46
7 years..... (12/1/66)	10.20	20.40	102.00	204.00	3.67	<sup>4</sup> 4.52
7½ years..... (6/1/67)	10.80	21.60	108.00	216.00	3.71	<sup>4</sup> 4.57
8 years..... (12/1/67)	10.80	21.60	108.00	216.00	3.74	<sup>4</sup> 4.63
8½ years..... (6/1/68)	10.80	21.60	108.00	216.00	3.77	<sup>4</sup> 4.84
9 years..... (12/1/68)	11.85	23.70	118.50	237.00	3.81	<sup>4</sup> 4.89
9½ years..... (6/1/69)	11.85	23.70	118.50	237.00	3.85	<sup>4</sup> 5.05
10 years (maturity) <sup>5</sup>	12.62	25.24	126.20	252.40	3.90	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1959. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 21**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1960**

Face value (Issue price - Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest payment date	(3) From each interest payment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/60)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year.....(6/1/61)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years.....(12/1/61)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years.....(6/1/62)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years.....(12/1/62)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years.....(6/1/63)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years.....(12/1/63)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years.....(6/1/64)	10.00	20.00	100.00	200.00	3.44	<sup>3</sup> 4.00
4½ years.....(12/1/64)	10.00	20.00	100.00	200.00	3.49	<sup>3</sup> 4.00
5 years.....(6/1/65)	10.00	20.00	100.00	200.00	3.54	<sup>3</sup> 4.00
5½ years.....(12/1/65)	10.00	20.00	100.00	200.00	3.58	<sup>3</sup> 4.40
6 years.....(6/1/66)	10.20	20.40	102.00	204.00	3.62	<sup>3</sup> 4.44
6½ years.....(12/1/66)	10.20	20.40	102.00	204.00	3.65	<sup>3</sup> 4.50
7 years.....(6/1/67)	10.70	21.40	107.00	214.00	3.69	<sup>3</sup> 4.54
7½ years.....(12/1/67)	10.70	21.40	107.00	214.00	3.72	<sup>3</sup> 4.60
8 years.....(6/1/68)	10.70	21.40	107.00	214.00	3.75	<sup>3</sup> 4.78
8½ years.....(12/1/68)	10.70	21.40	107.00	214.00	3.78	<sup>3</sup> 4.96
9 years.....(6/1/69)	12.05	24.10	120.50	241.00	3.83	<sup>3</sup> 5.03
9½ years.....(12/1/69)	12.05	24.10	120.50	241.00	3.87	<sup>3</sup> 5.24
10 years (maturity) <sup>4</sup> .....(6/1/70)	13.09	26.18	130.90	261.80	3.93	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1960. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 22**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1960 THROUGH MAY 1, 1961**

Face value (Issue price - Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest payment date	(3) From each interest payment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/61)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year.....(12/1/61)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years.....(6/1/62)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years.....(12/1/62)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years.....(6/1/63)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years.....(12/1/63)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years.....(6/1/64)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years.....(12/1/64)	10.00	20.00	100.00	200.00	3.44	<sup>3</sup> 4.00
4½ years.....(6/1/65)	10.00	20.00	100.00	200.00	3.49	<sup>3</sup> 4.00
5 years.....(12/1/65)	10.00	20.00	100.00	200.00	3.54	<sup>3</sup> 4.40
5½ years.....(6/1/66)	10.20	20.40	102.00	204.00	3.58	<sup>3</sup> 4.44
6 years.....(12/1/66)	10.20	20.40	102.00	204.00	3.62	<sup>3</sup> 4.49
6½ years.....(6/1/67)	10.20	20.40	102.00	204.00	3.65	<sup>3</sup> 4.56
7 years.....(12/1/67)	11.00	22.00	110.00	220.00	3.70	<sup>3</sup> 4.58
7½ years.....(6/1/68)	11.00	22.00	110.00	220.00	3.74	<sup>3</sup> 4.72
8 years.....(12/1/68)	11.00	22.00	110.00	220.00	3.78	<sup>3</sup> 4.81
8½ years.....(6/1/69)	11.00	22.00	110.00	220.00	3.81	<sup>3</sup> 4.95
9 years.....(12/1/69)	11.95	23.90	119.50	239.00	3.85	<sup>3</sup> 5.04
9½ years.....(6/1/70)	11.95	23.90	119.50	239.00	3.89	<sup>3</sup> 5.31
10 years (maturity) <sup>4</sup> .....(12/1/70)	13.27	26.54	132.70	265.40	3.95	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1960. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 23

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1961

Face value	Issue price Redemption <sup>1</sup> and maturity value.	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield on face value	
		500	1,000	5,000	10,000		
Period of time bond is held after issue date		(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
						Percent	Percent
¼ year.....	<sup>2</sup> (12/1/61)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year.....	(6/1/62)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years.....	(12/1/62)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years.....	(6/1/63)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years.....	(12/1/63)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years.....	(6/1/64)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years.....	(12/1/64)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years.....	(6/1/65)	10.00	20.00	100.00	200.00	3.44	<sup>3</sup> 4.00
4½ years.....	(12/1/65)	10.00	20.00	100.00	200.00	3.49	<sup>4</sup> 4.40
5 years.....	(6/1/66)	10.20	20.40	102.00	204.00	3.55	<sup>4</sup> 4.44
5½ years.....	(12/1/66)	10.20	20.40	102.00	204.00	3.59	<sup>4</sup> 4.48
6 years.....	(6/1/67)	10.20	20.40	102.00	204.00	3.63	<sup>4</sup> 4.54
6½ years.....	(12/1/67)	10.85	21.70	108.50	217.00	3.68	<sup>4</sup> 4.57
7 years.....	(6/1/68)	10.85	21.70	108.50	217.00	3.72	<sup>4</sup> 4.71
7½ years.....	(12/1/68)	10.85	21.70	108.50	217.00	3.75	<sup>4</sup> 4.79
8 years.....	(6/1/69)	11.35	22.70	113.50	227.00	3.80	<sup>4</sup> 4.85
8½ years.....	(12/1/69)	11.35	22.70	113.50	227.00	3.83	<sup>4</sup> 4.96
9 years.....	(6/1/70)	11.35	22.70	113.50	227.00	3.87	<sup>4</sup> 5.18
9½ years.....	(12/1/70)	12.15	24.30	121.50	243.00	3.91	<sup>4</sup> 5.50
10 years (maturity) <sup>5</sup> .....	(6/1/71)	13.75	27.50	137.50	275.00	3.97	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1961. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 24

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1961 THROUGH MAY 1, 1962

Face value	Issue price Redemption <sup>1</sup> and maturity value.	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield on face value	
		500	1,000	5,000	10,000		
Period of time bond is held after issue date		(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
						Percent	Percent
¼ year.....	<sup>2</sup> (6/1/62)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year.....	(12/1/62)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years.....	(6/1/63)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years.....	(12/1/63)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years.....	(6/1/64)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years.....	(12/1/64)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3½ years.....	(6/1/65)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.00
4 years.....	(12/1/65)	10.00	20.00	100.00	200.00	3.44	<sup>4</sup> 4.40
4½ years.....	(6/1/66)	10.20	20.40	102.00	204.00	3.50	<sup>4</sup> 4.43
5 years.....	(12/1/66)	10.20	20.40	102.00	204.00	3.56	<sup>4</sup> 4.47
5½ years.....	(6/1/67)	10.20	20.40	102.00	204.00	3.60	<sup>4</sup> 4.52
6 years.....	(12/1/67)	10.75	21.50	107.50	215.00	3.65	<sup>4</sup> 4.55
6½ years.....	(6/1/68)	10.75	21.50	107.50	215.00	3.69	<sup>4</sup> 4.69
7 years.....	(12/1/68)	10.75	21.50	107.50	215.00	3.73	<sup>4</sup> 4.76
7½ years.....	(6/1/69)	11.25	22.50	112.50	225.00	3.78	<sup>4</sup> 4.82
8 years.....	(12/1/69)	11.25	22.50	112.50	225.00	3.82	<sup>4</sup> 4.90
8½ years.....	(6/1/70)	11.25	22.50	112.50	225.00	3.85	<sup>4</sup> 5.05
9 years.....	(12/1/70)	12.00	24.00	120.00	240.00	3.89	<sup>4</sup> 5.17
9½ years.....	(6/1/71)	12.00	24.00	120.00	240.00	3.93	<sup>4</sup> 5.56
10 years (maturity) <sup>5</sup> .....	(12/1/71)	13.89	27.78	138.90	277.80	4.00	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1961. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.



**TABLE 25**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1962**

Face value/Issue price (Redemption and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
1/2 year..... <sup>2</sup> (12/1/62)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (6/1/63)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1 1/2 years..... (12/1/63)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years..... (6/1/64)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2 1/2 years..... (12/1/64)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years..... (6/1/65)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.00
3 1/2 years..... (12/1/65)	10.00	20.00	100.00	200.00	3.36	<sup>3</sup> 4.40
4 years..... (6/1/66)	10.20	20.40	102.00	204.00	3.45	<sup>3</sup> 4.43
4 1/2 years..... (12/1/66)	10.20	20.40	102.00	204.00	3.51	<sup>3</sup> 4.47
5 years..... (6/1/67)	10.20	20.40	102.00	204.00	3.56	<sup>3</sup> 4.51
5 1/2 years..... (12/1/67)	10.65	21.30	106.50	213.00	3.62	<sup>3</sup> 4.54
6 years..... (6/1/68)	10.65	21.30	106.50	213.00	3.67	<sup>3</sup> 4.68
6 1/2 years..... (12/1/68)	10.65	21.30	106.50	213.00	3.71	<sup>3</sup> 4.75
7 years..... (6/1/69)	11.25	22.50	112.50	225.00	3.76	<sup>3</sup> 4.79
7 1/2 years..... (12/1/69)	11.25	22.50	112.50	225.00	3.80	<sup>3</sup> 4.85
8 years..... (6/1/70)	11.25	22.50	112.50	225.00	3.84	<sup>3</sup> 4.95
8 1/2 years..... (12/1/70)	11.25	22.50	112.50	225.00	3.87	<sup>3</sup> 5.10
9 years..... (6/1/71)	12.05	24.10	120.50	241.00	3.91	<sup>3</sup> 5.25
9 1/2 years..... (12/1/71)	12.05	24.10	120.50	241.00	3.95	<sup>3</sup> 5.69
10 years (maturity) <sup>5</sup> ..... (6/1/72)	14.23	28.46	142.30	284.60	4.02	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1962. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1963 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 26**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1962 THROUGH MAY 1, 1963**

Face value/Issue price (Redemption and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
1/2 year..... <sup>2</sup> (6/1/63)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (12/1/63)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1 1/2 years..... (6/1/64)	8.00	16.00	80.00	160.00	2.56	<sup>3</sup> 4.00
2 years..... (12/1/64)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2 1/2 years..... (6/1/65)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.00
3 years..... (12/1/65)	10.00	20.00	100.00	200.00	3.26	<sup>3</sup> 4.40
3 1/2 years..... (6/1/66)	10.20	20.40	102.00	204.00	3.37	<sup>3</sup> 4.43
4 years..... (12/1/66)	10.20	20.40	102.00	204.00	3.45	<sup>3</sup> 4.46
4 1/2 years..... (6/1/67)	10.20	20.40	102.00	204.00	3.52	<sup>3</sup> 4.50
5 years..... (12/1/67)	10.60	21.20	106.00	212.00	3.58	<sup>3</sup> 4.53
5 1/2 years..... (6/1/68)	10.60	21.20	106.00	212.00	3.61	<sup>3</sup> 4.67
6 years..... (12/1/68)	10.60	21.20	106.00	212.00	3.68	<sup>3</sup> 4.73
6 1/2 years..... (6/1/69)	11.15	22.30	111.50	223.00	3.74	<sup>3</sup> 4.77
7 years..... (12/1/69)	11.15	22.30	111.50	223.00	3.78	<sup>3</sup> 4.82
7 1/2 years..... (6/1/70)	11.15	22.30	111.50	223.00	3.82	<sup>3</sup> 4.90
8 years..... (12/1/70)	11.15	22.30	111.50	223.00	3.85	<sup>3</sup> 5.02
8 1/2 years..... (6/1/71)	11.95	23.90	119.50	239.00	3.90	<sup>3</sup> 5.10
9 years..... (12/1/71)	11.95	23.90	119.50	239.00	3.94	<sup>3</sup> 5.27
9 1/2 years..... (6/1/72)	11.95	23.90	119.50	239.00	3.98	<sup>3</sup> 5.77
10 years (maturity) <sup>5</sup> ..... (12/1/72)	14.43	28.86	144.30	288.60	4.05	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1962. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1963 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 27**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1963**

Face value (Issue price ..... Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
$\frac{1}{2}$ year..... <sup>2</sup> (12/1/63)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (6/1/64)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years..... (12/1/64)	8.00	16.00	80.00	160.00	2.50	<sup>3</sup> 4.00
2 years..... (6/1/65)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.00
2½ years..... (12/1/65)	10.00	20.00	100.00	200.00	3.12	<sup>3</sup> 4.40
3 years..... (6/1/66)	10.20	20.40	102.00	204.00	3.27	<sup>3</sup> 4.43
3½ years..... (12/1/66)	10.20	20.40	102.00	204.00	3.38	<sup>3</sup> 4.46
4 years..... (6/1/67)	10.20	20.40	102.00	204.00	3.46	<sup>3</sup> 4.49
4½ years..... (12/1/67)	10.55	21.10	105.50	211.00	3.54	<sup>3</sup> 4.52
5 years..... (6/1/68)	10.55	21.10	105.50	211.00	3.60	4.66
5½ years..... (12/1/68)	10.55	21.10	105.50	211.00	3.65	4.71
6 years..... (6/1/69)	11.10	22.20	111.00	222.00	3.71	4.75
6½ years..... (12/1/69)	11.10	22.20	111.00	222.00	3.76	4.80
7 years..... (6/1/70)	11.10	22.20	111.00	222.00	3.80	4.86
7½ years..... (12/1/70)	11.10	22.20	111.00	222.00	3.84	4.95
8 years..... (6/1/71)	11.10	22.20	111.00	222.00	3.87	5.09
8½ years..... (12/1/71)	12.05	24.10	120.50	241.00	3.92	5.18
9 years..... (6/1/72)	12.05	24.10	120.50	241.00	3.96	5.37
9½ years..... (12/1/72)	12.05	24.10	120.50	241.00	4.00	5.94
10 years (maturity) <sup>5</sup> ..... (6/1/73)	14.84	29.68	148.40	296.80	4.08	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1963. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 28**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1963 THROUGH MAY 1, 1964**

Face value (Issue price ..... Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
$\frac{1}{2}$ year..... <sup>2</sup> (6/1/64)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (12/1/64)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years..... (6/1/65)	8.00	16.00	80.00	160.00	2.50	<sup>3</sup> 4.00
2 years..... (12/1/65)	10.00	20.00	100.00	200.00	2.91	<sup>3</sup> 4.40
2½ years..... (6/1/66)	10.20	20.40	102.00	204.00	3.14	<sup>3</sup> 4.43
3 years..... (12/1/66)	10.20	20.40	102.00	204.00	3.29	<sup>3</sup> 4.46
3½ years..... (6/1/67)	10.20	20.40	102.00	204.00	3.39	<sup>3</sup> 4.49
4 years..... (12/1/67)	10.20	20.40	102.00	204.00	3.47	<sup>3</sup> 4.53
4½ years..... (6/1/68)	10.75	21.50	107.50	215.00	3.56	4.65
5 years..... (12/1/68)	10.75	21.50	107.50	215.00	3.63	4.69
5½ years..... (6/1/69)	10.75	21.50	107.50	215.00	3.68	4.74
6 years..... (12/1/69)	10.75	21.50	107.50	215.00	3.73	4.80
6½ years..... (6/1/70)	11.25	22.50	112.50	225.00	3.78	4.85
7 years..... (12/1/70)	11.25	22.50	112.50	225.00	3.83	4.92
7½ years..... (6/1/71)	11.25	22.50	112.50	225.00	3.86	5.01
8 years..... (12/1/71)	11.25	22.50	112.50	225.00	3.90	5.14
8½ years..... (6/1/72)	12.10	24.20	121.00	242.00	3.94	5.24
9 years..... (12/1/72)	12.10	24.20	121.00	242.00	3.99	5.45
9½ years..... (6/1/73)	12.10	24.20	121.00	242.00	4.02	6.08
10 years (maturity) <sup>5</sup> ..... (12/1/73)	15.21	30.42	152.10	304.20	4.11	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1963. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.

<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 29

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1964

Face value (Issue price Redemption <sup>1</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/64)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year.....(6/1/65)	7.25	14.50	72.50	145.00	2.25	<sup>3</sup> 3.95
1½ years.....(12/1/65)	8.00	16.00	80.00	160.00	2.56	<sup>4</sup> 4.40
2 years.....(6/1/66)	10.20	20.40	102.00	204.00	2.93	<sup>4</sup> 4.42
2½ years.....(12/1/66)	10.20	20.40	102.00	204.00	3.15	<sup>4</sup> 4.45
3 years.....(6/1/67)	10.20	20.40	102.00	204.00	3.30	<sup>4</sup> 4.48
3½ years.....(12/1/67)	10.20	20.40	102.00	204.00	3.41	<sup>4</sup> 4.52
4 years.....(6/1/68)	10.70	21.40	107.00	214.00	3.51	<sup>4</sup> 4.64
4½ years.....(12/1/68)	10.70	21.40	107.00	214.00	3.59	<sup>4</sup> 4.68
5 years.....(6/1/69)	10.70	21.40	107.00	214.00	3.65	<sup>4</sup> 4.72
5½ years.....(12/1/69)	10.70	21.40	107.00	214.00	3.70	<sup>4</sup> 4.78
6 years.....(6/1/70)	11.20	22.40	112.00	224.00	3.76	<sup>4</sup> 4.82
6½ years.....(12/1/70)	11.20	22.40	112.00	224.00	3.81	<sup>4</sup> 4.87
7 years.....(6/1/71)	11.20	22.40	112.00	224.00	3.85	<sup>4</sup> 4.94
7½ years.....(12/1/71)	11.20	22.40	112.00	224.00	3.89	<sup>4</sup> 5.04
8 years.....(6/1/72)	11.20	22.40	112.00	224.00	3.92	<sup>4</sup> 5.19
8½ years.....(12/1/72)	12.15	24.30	121.50	243.00	3.96	<sup>4</sup> 5.31
9 years.....(6/1/73)	12.15	24.30	121.50	243.00	4.01	<sup>4</sup> 5.54
9½ years.....(12/1/73)	12.15	24.30	121.50	243.00	4.04	<sup>4</sup> 5.54
10 years (maturity) <sup>5</sup> .....(6/1/74)	15.58	31.16	155.80	311.60	4.13	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1964. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1963 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 30

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1964 THROUGH MAY 1, 1965

Face value <sup>1</sup> { Issue price Redemption <sup>1</sup> and maturity value.	\$500 509	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/65)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 3.88
1 year..... (12/1/65)	7.25	14.50	72.50	145.00	2.25	<sup>4</sup> 4.35
1½ years..... (6/1/66)	8.20	16.40	82.00	164.00	2.59	<sup>4</sup> 4.42
2 years..... (12/1/66)	10.20	20.40	102.00	204.00	2.95	<sup>4</sup> 4.45
2½ years..... (6/1/67)	10.20	20.40	102.00	204.00	3.17	<sup>4</sup> 4.48
3 years..... (12/1/67)	10.20	20.40	102.00	204.00	3.31	<sup>4</sup> 4.51
3½ years..... (6/1/68)	10.65	21.30	106.50	213.00	3.44	<sup>4</sup> 4.63
4 years..... (12/1/68)	10.65	21.30	106.50	213.00	3.54	<sup>4</sup> 4.67
4½ years..... (6/1/69)	10.65	21.30	106.50	213.00	3.61	<sup>4</sup> 4.71
5 years..... (12/1/69)	10.65	21.30	106.50	213.00	3.67	<sup>4</sup> 4.76
5½ years..... (6/1/70)	10.65	21.30	106.50	213.00	3.72	<sup>4</sup> 4.83
6 years..... (12/1/70)	11.35	22.70	113.50	227.00	3.78	<sup>4</sup> 4.86
6½ years..... (6/1/71)	11.35	22.70	113.50	227.00	3.83	<sup>4</sup> 4.92
7 years..... (12/1/71)	11.35	22.70	113.50	227.00	3.88	<sup>4</sup> 4.98
7½ years..... (6/1/72)	11.35	22.70	113.50	227.00	3.91	<sup>4</sup> 5.08
8 years..... (12/1/72)	11.35	22.70	113.50	227.00	3.95	<sup>4</sup> 5.22
8½ years..... (6/1/73)	12.15	24.30	121.50	243.00	3.99	<sup>4</sup> 5.35
9 years..... (12/1/73)	12.15	24.30	121.50	243.00	4.03	<sup>4</sup> 5.60
9½ years..... (6/1/74)	12.15	24.30	121.50	243.00	4.07	<sup>4</sup> 6.36
10 years (maturity) <sup>5</sup> ..... (12/1/74)	15.91	31.82	159.10	318.20	4.16	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1964. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965 revision.<sup>4</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>5</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 31

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1965

Face value <sup>1</sup> { Issue price Redemption <sup>1</sup> and maturity value.	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/65)	\$4.00	\$8.00	\$40.00	\$80.00	1.60	<sup>3</sup> 4.28
1 year..... (6/1/66)	7.45	14.90	74.50	149.00	2.29	<sup>3</sup> 4.37
1½ years..... (12/1/66)	8.20	16.40	82.00	164.00	2.61	<sup>3</sup> 4.45
2 years..... (6/1/67)	10.20	20.40	102.00	204.00	2.97	<sup>3</sup> 4.47
2½ years..... (12/1/67)	10.20	20.40	102.00	204.00	3.18	<sup>3</sup> 4.51
3 years..... (6/1/68)	10.60	21.20	106.00	212.00	3.35	<sup>4</sup> 4.63
3½ years..... (12/1/68)	10.60	21.20	106.00	212.00	3.47	<sup>4</sup> 4.66
4 years..... (6/1/69)	10.60	21.20	106.00	212.00	3.56	<sup>4</sup> 4.70
4½ years..... (12/1/69)	10.60	21.20	106.00	212.00	3.63	<sup>4</sup> 4.75
5 years..... (6/1/70)	10.60	21.20	106.00	212.00	3.69	<sup>4</sup> 4.81
5½ years..... (12/1/70)	11.30	22.60	113.00	226.00	3.76	<sup>4</sup> 4.84
6 years..... (6/1/71)	11.30	22.60	113.00	226.00	3.81	<sup>4</sup> 4.89
6½ years..... (12/1/71)	11.30	22.60	113.00	226.00	3.86	<sup>4</sup> 4.95
7 years..... (6/1/72)	11.30	22.60	113.00	226.00	3.90	<sup>4</sup> 5.02
7½ years..... (12/1/72)	11.30	22.60	113.00	226.00	3.94	<sup>4</sup> 5.13
8 years..... (6/1/73)	12.05	24.10	120.50	241.00	3.98	<sup>4</sup> 5.21
8½ years..... (12/1/73)	12.05	24.10	120.50	241.00	4.02	<sup>4</sup> 5.35
9 years..... (6/1/74)	12.05	24.10	120.50	241.00	4.06	<sup>4</sup> 5.63
9½ years..... (12/1/74)	12.05	24.10	120.50	241.00	4.09	<sup>4</sup> 6.46
10 years (maturity) <sup>4</sup> ..... (6/1/75)	16.15	32.30	161.50	323.00	4.19	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1965. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>4</sup> Final check at maturity improved by revision of June 1, 1968.



TABLE 32

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1965 THROUGH MAY 1, 1966

Face value (Issue price Redemption <sup>1</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each inter- est payment date	(3) From each interest payment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/66)	\$5.50	\$11.00	\$55.00	\$110.00	2.20	<sup>3</sup> 4.27
1 year..... (12/1/66)	9.70	19.40	97.00	194.00	3.03	<sup>3</sup> 4.30
1½ years..... (6/1/67)	10.75	21.50	107.50	215.00	3.45	<sup>3</sup> 4.30
2 years..... (12/1/67)	10.75	21.50	107.50	215.00	3.65	<sup>3</sup> 4.30
2½ years..... (6/1/68)	10.75	21.50	107.50	215.00	3.78	4.40
3 years..... (12/1/68)	10.75	21.50	107.50	215.00	3.86	4.41
3½ years..... (6/1/69)	10.75	21.50	107.50	215.00	3.92	4.42
4 years..... (12/1/69)	10.75	21.50	107.50	215.00	3.96	4.43
4½ years..... (6/1/70)	10.75	21.50	107.50	215.00	4.00	4.44
5 years..... (12/1/70)	10.75	21.50	107.50	215.00	4.03	4.46
5½ years..... (6/1/71)	10.75	21.50	107.50	215.00	4.05	4.48
6 years..... (12/1/71)	10.75	21.50	107.50	215.00	4.07	4.50
6½ years..... (6/1/72)	10.75	21.50	107.50	215.00	4.08	4.53
7 years..... (12/1/72)	10.75	21.50	107.50	215.00	4.10	4.58
7½ years..... (6/1/73)	10.75	21.50	107.50	215.00	4.11	4.64
8 years..... (12/1/73)	10.75	21.50	107.50	215.00	4.12	4.72
8½ years..... (6/1/74)	10.75	21.50	107.50	215.00	4.13	4.87
9 years..... (12/1/74)	10.75	21.50	107.50	215.00	4.13	5.17
9½ years..... (6/1/75)	10.75	21.50	107.50	215.00	4.14	6.06
10 years (maturity) <sup>4</sup> ..... (12/1/75)	15.14	30.28	151.40	302.80	4.22	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1965. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>4</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 33

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1966

Face value (Issue price Redemption <sup>1</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each inter- est pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/66)	\$5.50	\$11.00	\$55.00	\$110.00	2.20	<sup>3</sup> 4.27
1 year..... (6/1/67)	9.70	19.40	97.00	194.00	3.03	<sup>3</sup> 4.30
1½ years..... (12/1/67)	10.75	21.50	107.50	215.00	3.45	<sup>3</sup> 4.30
2 years..... (6/1/68)	10.75	21.50	107.50	215.00	3.65	4.40
2½ years..... (12/1/68)	10.75	21.50	107.50	215.00	3.78	4.41
3 years..... (6/1/69)	10.75	21.50	107.50	215.00	3.86	4.42
3½ years..... (12/1/69)	10.75	21.50	107.50	215.00	3.92	4.43
4 years..... (6/1/70)	10.75	21.50	107.50	215.00	3.96	4.44
4½ years..... (12/1/70)	10.75	21.50	107.50	215.00	4.00	4.45
5 years..... (6/1/71)	10.75	21.50	107.50	215.00	4.03	4.47
5½ years..... (12/1/71)	10.75	21.50	107.50	215.00	4.05	4.49
6 years..... (6/1/72)	10.75	21.50	107.50	215.00	4.07	4.52
6½ years..... (12/1/72)	10.75	21.50	107.50	215.00	4.08	4.55
7 years..... (6/1/73)	10.75	21.50	107.50	215.00	4.10	4.60
7½ years..... (12/1/73)	10.75	21.50	107.50	215.00	4.11	4.66
8 years..... (6/1/74)	10.75	21.50	107.50	215.00	4.12	4.76
8½ years..... (12/1/74)	10.75	21.50	107.50	215.00	4.13	4.92
9 years..... (6/1/75)	10.75	21.50	107.50	215.00	4.13	5.24
9½ years..... (12/1/75)	10.75	21.50	107.50	215.00	4.14	6.20
10 years (maturity) <sup>4</sup> ..... (6/1/76)	15.49	30.98	154.90	309.80	4.23	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1966. For subsequent issue months add the appropriate number of months.<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.<sup>4</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 34**  
**BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1966 THROUGH MAY 1, 1967**

Face value / Issue price (Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (6/1/67)	\$5.50	\$11.00	\$55.00	\$110.00	2.20	4.27
1 year..... (12/1/67)	9.70	19.40	97.00	194.00	3.03	4.30
1½ years..... (6/1/68)	10.75	21.50	107.50	215.00	3.45	4.40
2 years..... (12/1/68)	10.75	21.50	107.50	215.00	3.65	4.41
2½ years..... (6/1/69)	10.75	21.50	107.50	215.00	3.78	4.42
3 years..... (12/1/69)	10.75	21.50	107.50	215.00	3.86	4.43
3½ years..... (6/1/70)	10.75	21.50	107.50	215.00	3.92	4.44
4 years..... (12/1/70)	10.75	21.50	107.50	215.00	3.96	4.45
4½ years..... (6/1/71)	10.75	21.50	107.50	215.00	4.00	4.47
5 years..... (12/1/71)	10.75	21.50	107.50	215.00	4.03	4.48
5½ years..... (6/1/72)	10.75	21.50	107.50	215.00	4.05	4.51
6 years..... (12/1/72)	10.75	21.50	107.50	215.00	4.07	4.53
6½ years..... (6/1/73)	10.75	21.50	107.50	215.00	4.08	4.57
7 years..... (12/1/73)	10.75	21.50	107.50	215.00	4.10	4.62
7½ years..... (6/1/74)	10.75	21.50	107.50	215.00	4.11	4.69
8 years..... (12/1/74)	10.75	21.50	107.50	215.00	4.12	4.79
8½ years..... (6/1/75)	10.75	21.50	107.50	215.00	4.13	4.96
9 years..... (12/1/75)	10.75	21.50	107.50	215.00	4.13	5.30
9½ years..... (6/1/76)	10.75	21.50	107.50	215.00	4.14	6.34
10 years (maturity) <sup>4</sup> ..... (12/1/76)	15.84	31.68	158.40	316.80	4.23	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1966. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> Final check at maturity improved by revision of June 1, 1968.

**TABLE 35**  
**BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1967**

Face value / Issue price (Redemption <sup>1</sup> and maturity value.)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
½ year..... <sup>2</sup> (12/1/67)	\$5.50	\$11.00	\$55.00	\$110.00	2.20	4.27
1 year..... (6/1/68)	9.70	19.40	97.00	194.00	3.03	4.40
1½ years..... (12/1/68)	10.75	21.50	107.50	215.00	3.45	4.41
2 years..... (6/1/69)	10.75	21.50	107.50	215.00	3.65	4.42
2½ years..... (12/1/69)	10.75	21.50	107.50	215.00	3.78	4.42
3 years..... (6/1/70)	10.75	21.50	107.50	215.00	3.86	4.43
3½ years..... (12/1/70)	10.75	21.50	107.50	215.00	3.92	4.45
4 years..... (6/1/71)	10.75	21.50	107.50	215.00	3.96	4.46
4½ years..... (12/1/71)	10.75	21.50	107.50	215.00	4.00	4.48
5 years..... (6/1/72)	10.75	21.50	107.50	215.00	4.03	4.50
5½ years..... (12/1/72)	10.75	21.50	107.50	215.00	4.05	4.52
6 years..... (6/1/73)	10.75	21.50	107.50	215.00	4.07	4.55
6½ years..... (12/1/73)	10.75	21.50	107.50	215.00	4.08	4.59
7 years..... (6/1/74)	10.75	21.50	107.50	215.00	4.10	4.64
7½ years..... (12/1/74)	10.75	21.50	107.50	215.00	4.11	4.72
8 years..... (6/1/75)	10.75	21.50	107.50	215.00	4.12	4.83
8½ years..... (12/1/75)	10.75	21.50	107.50	215.00	4.13	5.01
9 years..... (6/1/76)	10.75	21.50	107.50	215.00	4.13	5.38
9½ years..... (12/1/76)	10.75	21.50	107.50	215.00	4.14	6.48
10 years (maturity) <sup>4</sup> ..... (6/1/77)	16.20	32.40	162.00	324.00	4.24	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of June 1, 1967. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968 revision.

<sup>4</sup> Final check at maturity improved by revision of June 1, 1968.

TABLE 36  
BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1967 THROUGH MAY 1, 1968

Face value <sup>1</sup> /Issue price (Redemption <sup>2</sup> and maturity value)	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date to each interest pay- ment date	(3) From each interest pay- ment date to maturity
					Percent	Percent
¼ year..... <sup>3</sup> (6/1/68)	\$5.50	\$11.00	\$55.00	\$110.00	2.20	4.37
1 year..... (12/1/68)	9.70	19.40	97.00	194.00	3.03	4.41
1½ years..... (6/1/69)	10.75	21.50	107.50	215.00	3.45	4.41
2 years..... (12/1/69)	10.75	21.50	107.50	215.00	3.65	4.42
2½ years..... (6/1/70)	10.75	21.50	107.50	215.00	3.78	4.43
3 years..... (12/1/70)	10.75	21.50	107.50	215.00	3.86	4.44
3½ years..... (6/1/71)	10.75	21.50	107.50	215.00	3.92	4.46
4 years..... (12/1/71)	10.75	21.50	107.50	215.00	3.96	4.47
4½ years..... (6/1/72)	10.75	21.50	107.50	215.00	4.00	4.49
5 years..... (12/1/72)	10.75	21.50	107.50	215.00	4.03	4.51
5½ years..... (6/1/73)	10.75	21.50	107.50	215.00	4.05	4.54
6 years..... (12/1/73)	10.75	21.50	107.50	215.00	4.07	4.57
6½ years..... (6/1/74)	10.75	21.50	107.50	215.00	4.08	4.61
7 years..... (12/1/74)	10.75	21.50	107.50	215.00	4.10	4.67
7½ years..... (6/1/75)	10.75	21.50	107.50	215.00	4.11	4.74
8 years..... (12/1/75)	10.75	21.50	107.50	215.00	4.12	4.86
8½ years..... (6/1/76)	10.75	21.50	107.50	215.00	4.13	5.06
9 years..... (12/1/76)	10.75	21.50	107.50	215.00	4.13	5.45
9½ years..... (6/1/77)	10.75	21.50	107.50	215.00	4.14	6.63
10 years (maturity) <sup>3</sup> ..... (12/1/77)	16.57	33.14	165.70	331.40	4.21	-----

<sup>1</sup> At all times, except that bond was not redeemable during first 6 months.

<sup>2</sup> Month, day, and year on which interest check is payable on issues of December 1, 1967. For subsequent issue months add the appropriate number of months.

<sup>3</sup> Final check at maturity improved by revision of June 1, 1968.

### Exhibit 8.—Department Circular, Public Debt Series No. 3-67, Revised, June 19, 1968, offering of United States savings notes

TREASURY DEPARTMENT,  
Washington, June 19, 1968.

Treasury Department Circular, Public Debt Series No. 3-67, dated February 22, 1967, including the table incorporated therein (31 CFR 342), is hereby amended and reissued as Treasury Department Circular, Public Debt Series No. 3-67, Revised.

**AUTHORITY:** Secs. 342.0 through 342.9 and the tables incorporated in the circular are issued under authority of Sections 18 and 20 of the Second Liberty Bond Act, as amended (40 Stat. 1304, 48 Stat. 343, both as amended; 31 U.S.C. 753, 754b).

**Sec. 342.0. Offering of notes.**—The Secretary of the Treasury hereby offers for sale to the people of the United States, United States Savings Notes (also known as "Freedom Shares" and generally referred to herein as "savings notes" or "notes"). The notes may be purchased only in combination with United States Savings Bonds of Series E of equal or greater face amounts. This offering, which shall be effective June 1, 1968, will continue until terminated by the Secretary of the Treasury.

**Sec. 342.1. Definitions of words and terms as used in this offer.**—(a) "Payroll savings plan" refers to a voluntary program maintained by an employer whereby its participating officers and employees authorize regular withholdings from their salaries or wages for the purchase of Series E bonds.

(b) "Quarter" refers to a 3-month period of a year, as follows: January-February-March, April-May-June, July-August-September, or October-November-December.

**Sec. 342.2. Description of notes.**—(a) *General.*—Savings notes are issued only in registered form and are nontransferable.

(b) *Term.*—A savings note will be dated as of the first day of the month in which payment of the purchase price is received by an issuing agent.<sup>1</sup> This date is the issue date and the note will mature and be payable at its maturity value 4 years and 6 months from such issue date. The note may not be called for redemption by the Secretary of the Treasury prior to maturity, and is not redeemable during the first year from issue date. Thereafter, the note may be redeemed at fixed redemption values at the option and request of the owner.

<sup>1</sup> Generally, incorporated banks, trust companies and other agencies as have been duly qualified as issuing agents of Series E bonds.

(c) *Denominations—prices—investment yield (interest).*—Savings notes are issued on a discount basis. The denominations and purchase prices are:

<i>Denomination</i>	<i>Purchase price (dollars)</i>
\$25 -----	20. 25
\$50 -----	40. 50
\$75 -----	60. 75
\$100 -----	81. 00

Interest will be paid as a part of the redemption value. A note will increase in value one year after issue date and at the beginning of each half-year period thereafter until maturity, at which time interest will cease. Interest on a note redeemed before maturity will cease at the end of the interest period next preceding the redemption date, except that if redeemed on a date on which the redemption value increases, interest will cease on that date.

(1) *Notes with issue dates June 1, 1968, or thereafter.*—The investment yield on a savings note with issue date of June 1, 1968, or thereafter, will be approximately 5 percent per annum compounded semiannually, if the note is held to maturity, but the yield will be less if the note is redeemed prior to maturity (see Table 1).

(2) *Notes with issue dates May 1, 1967, through May 1, 1968.*—The investment yield on savings notes with issue dates of May 1, 1967, through May 1, 1968, if held to maturity, will be 4.74 percent per annum compounded semiannually, but the yield will be less if the notes are redeemed earlier (see Table 2).

(d) *Inscription and issue.*—At the time of issue the authorized issuing agent will (1) inscribe on the face of each note the name and address of the owner and the name of the beneficiary, if any, or the names of the coowners and the address of the first-named coowner,<sup>1</sup> (2) enter the issue date in the right-hand portion of the note in the space provided for that purpose, and (3) imprint thereunder, by use of the agent's validating stamp for the issue of United States Savings Bonds, the date the note is actually inscribed. A note shall be valid only if an authorized issuing agent receives payment therefor and duly inscribes, dates, stamps, and delivers it.

(e) *Stock for notes issued on and after June 1, 1968.*—Savings note stock in use prior to June 1, 1968, will be used for notes issued hereunder until such time as new stock is printed and supplied to issuing agents. THE NEW INVESTMENT YIELD AND REDEMPTION VALUES SHALL APPLY TO SUCH NOTES AS FULLY AS IF EXPRESSLY SET FORTH IN THE TEXT. They will be redeemed by all paying agents at the redemption values in Table 1. Accordingly, it is not necessary for owners to exchange notes on old stock when the new stock is available, but they may do so if they wish by presenting notes issued on and after June 1, 1968, on old stock to any Federal Reserve Bank or Branch, or to the Treasurer of the United States, Securities Division, Washington, D.C. 20220.

Sec. 342.3. *Purchase—registration.*—(a) *Purchase.*—Savings notes, in combination with Series E bonds, may be obtained from any authorized issuing agent, or a Federal Reserve Bank or Branch, or the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20220. Payments for the notes may be made in the same manner as payments for United States Savings Bonds. Issuing agents will deliver the notes at the time of purchase, or by mail at the risk and expense of the United States, but only within the United States, its territories and possessions, the Commonwealth of Puerto Rico and the Canal Zone. No mail deliveries elsewhere will be made.

(b) *Registration.*—On original issue a savings note (1) is limited to registration in the name of a natural person (whether adult or minor), alone or with another natural person as coowner or beneficiary, and (2) must be identical in registration to the Series E bond purchased in combination therewith.

Sec. 342.4. *Limitations.*—(a) *Purchases.*—(1) *Payroll savings plans.*—Under a payroll savings plan, withholdings for notes shall not exceed the ratio of \$1.08 for the notes to \$1.00 for the Series E bonds and shall not exceed \$20.25 per weekly pay period, or \$40.50 per biweekly or semimonthly pay period, or \$81.00 per monthly pay period.

<sup>1</sup> When placing a taxpayer identifying number (an individual's social security account number) on a note, the issuing agent should place the number on the note in the same position as on the companion Series E bond.



(2) *Others.*—In combination purchases of notes and Series E bonds, other than under a payroll savings plan, purchases of notes shall not exceed \$350 (face amount) a quarter, and in no event shall the annual limitation of \$1,350 (face amount) be exceeded.

(b) *Holdings.*—Savings notes originally issued to any one person during any one calendar year that may be held by that person at any one time is limited to \$1,350 (face amount).

Sec. 342.5. *Taxation.*—(a) *General.*—For the purpose of determining taxes and tax exemptions, the increment in value represented by the difference between the purchase price and the redemption value received for a savings note will be considered as interest. The interest is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

(b) *Federal income tax on notes.*—An owner of savings notes who is a cash basis taxpayer may use either of two methods for reporting the increase in the redemption value of the notes for Federal income tax purposes, as follows:

(1) Defer reporting of the increase until the year of maturity, actual redemption, or other disposition, whichever is earlier, or

(2) Elect to report the increase for the year in which it accrues, in which case the election will apply also to all Series E bonds then owned by him and those thereafter acquired, as well as to any other similar obligations sold on a discount basis.

If method (1) is used, the taxpayer may change to method (2) without obtaining permission from the Internal Revenue Service. However, once the election to use method (2) is made, the taxpayer may not change the method of reporting, unless he obtains permission to do so from the Internal Revenue Service. Inquiries requesting further information on Federal taxes should be addressed to the District Director, Internal Revenue Service, of the taxpayer's district, or the Internal Revenue Service, Washington, D.C. 20224.

Sec. 342.6. *Payment or redemption.*—(a) *General.*—At any time one year or more after the issue date, a savings note may be redeemed upon presentation and surrender of the note with a duly executed request for payment to any Federal Reserve Bank or Branch, or the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20220, or to any financial institution which has been designated as paying agent by the Secretary of the Treasury.

(b) *Judgment creditors.*—Payment of a savings note to the purchaser at a sale under a levy or to the officer authorized to levy upon the property of the owner under appropriate process to satisfy a money judgment will not be made until one year after the issue date of the note.

Sec. 342.7. *Governing regulations.*—Savings notes are subject to the regulations of the Treasury Department, now or hereafter prescribed, governing United States Savings Bonds, contained in Department Circular No. 530, current revision (31 CFR Part 315),<sup>1</sup> except as otherwise specifically provided herein.

Sec. 342.8. *Fiscal agents.*—Federal Reserve Banks and Branches, as fiscal agents of the United States, are authorized to perform such services as may be requested of them by the Secretary of the Treasury in connection with the issue, delivery, redemption, and payment of savings notes.

Sec. 342.9. *Reservations.*—(a) *Issue of notes.*—The Secretary of the Treasury reserves the right to reject any application for purchase of savings notes, in whole or in part, and to refuse to issue or permit to be issued hereunder any such notes in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final.

(b) *Terms of offer.*—The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this offering of notes, or of any amendments or supplements thereto.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary of the Treasury.*

<sup>1</sup> Copies may be obtained from any Federal Reserve Bank or Branch, or the Bureau of the Public Debt, Division of Loans and Currency Branch, 536 South Clark Street, Chicago, Ill. 60605.

**TABLES OF REDEMPTION VALUES AND INVESTMENT YIELDS FOR UNITED STATES SAVINGS NOTES**

Each table shows: (1) redemption values, by denomination, during each successive half-year term of holding after first year <sup>1</sup> following the date of issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; <sup>2</sup> and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period <sup>2</sup> to maturity. Yields are expressed in terms of rate percent per annum compounded semiannually.

**TABLE 1**

**NOTES BEARING ISSUE DATES BEGINNING JUNE 1, 1968**

Denomination.....	\$25.00	\$50.00	\$75.00	\$100.00			
Issue price.....	20.25	40.50	60.75	81.00	Approximate investment yield		
Period after issue date	(1) Redemption values during each half-year period after the first year (values increase on first day of period shown) <sup>1</sup>				(2) On purchase price from issue date to beginning of each half-year period <sup>2</sup>	(3) On current redemption value from beginning of each half-year period to maturity <sup>2</sup>	
					<i>Percent</i>	<i>Percent</i>	
1 to 1½ years.....	\$21.07	\$42.14	\$63.21	\$84.28	4.01	5.28	
1½ to 2 years.....	21.53	43.06	64.59	86.12	4.13	5.44	
2 to 2½ years.....	22.03	44.06	66.09	88.12	4.26	5.60	
2½ to 3 years.....	22.56	45.12	67.68	90.24	4.37	5.79	
3 to 3½ years.....	23.14	46.28	69.42	92.56	4.50	6.01	
3½ to 4 years.....	23.74	47.48	71.22	94.96	4.60	6.43	
4 to 4½ years.....	24.36	48.72	73.08	97.44	4.67	7.64	
<b>MATURITY VALUE</b>							
(4½ years from issue date).....	25.29	50.58	75.87	101.16	5.00		

<sup>1</sup> Savings notes are not redeemable before 1 year from issue date.

<sup>2</sup> Except the first half-year.

**TABLE 2**

**NOTES BEARING ISSUE DATES FROM MAY 1, 1967 THROUGH MAY 1, 1968**

Denomination.....	\$25.00	\$50.00	\$75.00	\$100.00			
Issue price.....	20.25	40.50	60.75	81.00	Approximate investment yield		
Period after issue date	(1) Redemption values during each half-year period after the first year (values increase on first day of period shown) <sup>1</sup>				(2) On purchase price from issue date to beginning of each half-year period <sup>2</sup>	(3) On current redemption value from beginning of each half-year period to maturity <sup>2</sup>	
					<i>Percent</i>	<i>Percent</i>	
1 to 1½ years.....	\$21.07	\$42.14	\$63.21	\$84.28	4.01	4.95	
1½ to 2 years.....	21.53	43.06	64.59	86.12	4.13	5.04	
2 to 2½ years.....	22.03	44.06	66.09	88.12	4.26	5.12	
2½ to 3 years.....	22.56	45.12	67.68	90.24	4.37	5.20	
3 to 3½ years.....	23.14	46.28	69.42	92.56	4.50	5.22	
3½ to 4 years.....	23.74	47.48	71.22	94.96	4.60	5.24	
4 to 4½ years.....	24.36	48.72	73.08	97.44	4.67	5.25	
<b>MATURITY VALUE</b>							
(4½ years from issue date).....	25.00	50.00	75.00	100.00	4.74		

<sup>1</sup> Savings notes are not redeemable before 1 year from issue date.

<sup>2</sup> Except the first half-year.

**Exhibit 9.—Amendment, September 5, 1967, of Department Circular Public Debt Series No. 4-67, regulations governing agencies for the issue of United States savings bonds of Series E and United States savings notes**

TREASURY DEPARTMENT,  
Washington, September 5, 1967.

Section 317.2, paragraph (a), and Section 317.3 of Department Circular, Public Debt Series No. 4-67 (31 CFR, Part 317), are amended by revision as follows:  
Sec. 317.2. *Procedure for qualifying as an issuing agent.*

(a) *General.*—An organization desiring to qualify as an issuing agent shall obtain from and file with the Federal Reserve Bank an appropriate application-

agreement form. If the organization desires to qualify as an issuing agent for bonds only, it shall, before submission, amend the form furnished so that it refers only to bonds. Through use of the appropriate form, the person authorized to act on behalf of the organization will certify that it is authorized by its governing body, or other body authorized to act in the premises, or by its charter, constitution or bylaws, to apply for and act as an issuing agent under the terms of the agreement, these regulations and the circulars offering the bonds and notes for sale, or, if appropriate, bonds only, and that applicable Federal or State law permits or does not prohibit the organization from so acting. In addition, the terms of any application-agreement filed hereafter and by reason of this paragraph include the provisions prescribed by Section 202 of Executive Order No. 11246, entitled "Equal Employment Opportunity" (3 CFR 167, 1965 Supplement). An issuing agent qualified prior hereto, whether under the provisions of this circular or Treasury Department Circular No. 657, as amended (rescinded effective February 24, 1967), requisitioning stock on any of the bases provided for in paragraph (b) of this section, and which on or after November 30, 1966, entered into a contract of deposit with the Treasury Department in accordance with Treasury Department Circulars No. 92 (Revised) or No. 176 (Revised) (31 CFR Parts 203 or 202), need take no action with respect to its qualification hereunder. Any other issuing agent qualified prior hereto which desires to requisition stock on or after December 1, 1967, must signify its intent in writing to be bound by and comply with the provisions of section 202 of the Order.

Sec. 317.3. *Certificate of qualification.*—Until such time as a certificate of qualification is issued by the Federal Reserve Bank, an organization shall not make any effort to or perform any acts as an issuing agent, or advertise in any manner that it is authorized to perform such acts, or that it has applied for qualification as an issuing agent. Upon approval of the application-agreement, the Federal Reserve Bank will issue a notice of qualification to the organization, whereupon it will be authorized to issue bonds and notes, or bonds only, as herein provided, and become subject to the provisions of Part II of Executive Order No. 11246. The Federal Reserve Bank will notify the organization if the application-agreement is not approved, or after qualification, at any such time as the certificate of qualification is modified or terminated.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary.*

**Exhibit 10.—Department Circular, Public Debt Series No. 3-68, March 18, 1968, regulations governing United States mortgage guaranty insurance company tax and loss bonds**

TREASURY DEPARTMENT,  
*Washington, March 18, 1968.*

§ 343.0 *Offering of bonds.*—The Secretary of the Treasury, under the authority of the Second Liberty Bond Act, as amended, and pursuant to § 832(e) of the Internal Revenue Code of 1954, offers for sale to, and only to, companies organized and engaged in the business of writing mortgage guaranty insurance within the United States, bonds of the United States designated as mortgage guaranty insurance company tax and loss bonds, hereinafter referred to as "tax and loss bonds." This offering will continue until terminated by the Secretary of the Treasury.

§ 343.1 *Description of bonds.*

(a) *General.*—Tax and loss bonds will be issued in registered form only and in the exact amount paid by the purchaser. The bonds will not earn interest and may not be transferred by sale, exchange, assignment, pledge or otherwise. They may be reissued as provided in § 343.5.

(b) *Term.*—Tax and loss bonds will mature 10 years from their issue date and will not be subject to call for redemption prior to maturity.

(c) *Dating.*—Tax and loss bonds will be issued as of the date of receipt of an application for issue and remittance by the Office of the Treasurer of the United States or a Federal Reserve Bank or Branch, except that all bonds purchased during the month of March 1968 will be dated March 15, 1968. An application received from a commercial bank for a customer will be treated as though received on the date shown on its postmark, if the purchase price is transmitted by credit to its Treasury Tax and Loan Account and the Certificate of Advice is dated on or prior to that date.



§ 343.2 *Purchase.*—Tax and loss bonds may be purchased over the counter or by mail from the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20220, or the Federal Reserve Banks and Branches, which will furnish application forms for the purchase of such bonds upon request. An application properly completed and accompanied by a remittance for the full amount of the bond applied for must be received by the Office of the Treasurer or a Federal Reserve Bank or Branch before a bond will be issued. Any form of exchange will be accepted subject to collection.

Banking institutions, generally, may submit applications for customers, but only the Federal Reserve Banks and Branches and the Office of the Treasurer are authorized to act as official agencies. Remittance of the purchase price may be made through credit to Treasury tax and loan accounts.

§ 343.3 *Redemption.*—Tax and loss bonds may not be called for redemption by the Secretary of the Treasury prior to maturity, but may be redeemed in whole or in part at the owner's option at any time after three months from issue date. To obtain redemption, a bond with the assignment for redemption properly completed and executed must be presented to the Bureau of the Public Debt, Division of Loans and Currency, Washington, D.C. 20226. Payment will be made in accordance with the instruction in the assignment for redemption. The District Director of the Internal Revenue District in which the owner's principal place of business is located will be furnished a copy of the redemption advice. Upon partial redemption of a bond, the remainder will be reissued as of the original issue date.

§ 343.4 *Taxation.*—Tax and loss bonds will be exempt from all taxation now or hereafter imposed on the principal by any State or any possession of the United States or of any local taxing authority.

§ 343.5 *Reissue.*

(a) *General.*—Reissue of a bond may be made only under the conditions specified in these regulations. A request for reissue must be made by an officer of the owner authorized to assign the bond for redemption. An appropriate form may be obtained from the Bureau of the Public Debt, Division of Loans and Currency, Washington, D.C. 20226. A reissued bond, upon reissue, will bear the same issue date as the original bond.

(b) *Correction of error.*—The reissue of a bond may be made to correct an error in the original issue upon appropriate request supported by satisfactory proof of error.

(c) *Change of name.*—An owner whose name is changed in any legal manner after the issue of the bond should submit the bond with a request for reissue, to substitute the new name for the name inscribed on the bond. The signature on the request for reissue should show the new name, the manner in which the change was made and the former name, and must be supported by satisfactory proof of the change of name.

(d) *Legal succession.*—A bond registered in the name of a company which has been succeeded by another company as the result of a merger, consolidation, incorporation, reincorporation, conversion, or reorganization, or which has been lawfully succeeded in any manner whereby the business or activities of the original organization are continued without substantial change will be paid to or reissued in the name of the successor upon appropriate request on its behalf, supported by satisfactory evidence of successorship.

§ 343.6 *General provisions.*

(a) *Regulations.*—All tax and loss bonds shall be subject to the general regulations prescribed by the Secretary of the Treasury with respect to United States securities which are set forth in the Treasury Department Circular No. 300, current revision, to the extent applicable. Copies of the general regulations may be obtained upon request from the Bureau of the Public Debt, Division of Loans and Currency, Washington, D.C. 20226.

(b) *Fiscal Agents.*—Federal Reserve banks and branches, as fiscal agents of the United States, may be authorized to perform such services as may be requested of them by the Secretary of the Treasury in connection with the issue, delivery, redemption, reissue, and payment of tax and loss bonds.

(c) *Reservations.*—The Secretary of the Treasury may at any time, or from time to time, supplement or amend the terms of this circular or any amendments or supplements thereto.

HENRY H. FOWLER,  
*Secretary of the Treasury.*



## Legislation

**Exhibit 11.—An act to amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury**

[Public Law 90-300, 90th Congress, H.R. 15344, May 4, 1968]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14(b) of the Federal Reserve Act, as amended (12 U.S.C. 355), is amended by striking out "July 1, 1968" and inserting in lieu thereof "July 1, 1970" and by striking out "June 30, 1968" and inserting in lieu thereof "June 30, 1970".*

**Federal  
Reserve Act,  
amendment.  
80 Stat. 235.**

Approved May 4, 1968.

## Financial Policy

**Exhibit 12.—Statement by Secretary Fowler, January 30, 1968, before the Senate Banking and Currency Committee, on legislation to remove the gold cover**

I am grateful to you for the opportunity to appear before you promptly in support of the President's recommendation for removal of the gold cover.

The legislation before you would eliminate the 25 percent gold reserve requirement from Federal Reserve notes and the \$156 million reserve held against U.S. notes and Treasury notes of 1890.

The Administration believes that prompt action to remove the cover requirement is necessary for three principal reasons:

—Prospective normal increases in currency holdings—Federal Reserve notes—by the public will "lock up" more and more of our "free" gold and soon reach a point inhibiting further expansion of our pocket cash, one portion of our domestic money supply. Obviously we cannot tolerate such a situation.

—There should be no doubt whatsoever that our total gold stock is available to insure the free international convertibility between the dollar and gold at the fixed price of \$35 an ounce.

—The world knows as a fact that the strength of the dollar depends upon the strength of the U.S. economy rather than upon a legal 25 percent reserve requirement against Federal Reserve notes, and it is clearly appropriate for this fact now to be recognized in legislation.

Despite these facts, the gold reserve requirement against Federal Reserve notes, instituted at a time when gold circulated freely in the domestic economy, is still part of our law. It should be removed.

The need for prompt removal is apparent from a look at the simple arithmetic of the problem.

*The U.S. gold stock is now at \$12 billion—the cover requirement is approximately \$10.7 billion—the balance remaining is \$1.3 billion.*

The normal increase in notes will absorb over \$500 million annually and a further \$150 million or more will be absorbed each year for domestic artistic and industrial purposes. These two factors taken together mean that about \$700 million a year of our free gold will be absorbed for domestic reasons. There is thus but 2 years grace at most even if one assumes that no gold at all will be needed for international purposes. Clearly we cannot proceed on such an assumption.

Since the passage of the Federal Reserve Act more than a half century ago, the function of gold in our monetary system has undergone a fundamental transformation. Gold no longer circulates freely as domestic currency in any major country in the world. We Americans have not used gold as domestic currency since 1934. Gold belongs in a nation's international reserves. The dollar serves as a reserve currency to the world; the U.S. gold supply is available to convert dollars held by national monetary authorities at a fixed price. As such, it is one cornerstone—and a very main cornerstone—of our international monetary system.

Today, the strength of the dollar is not a function of this legal tie to gold—a tie which is only applicable to one portion of our total money supply, Federal

Reserve notes. The value of the dollar—whether it be in the form of a bank balance, a coin, or “folding money”—is dependent on the quantity and quality of goods and services which it can purchase. It is the strength and soundness of the American economy which stands behind the dollar. Balanced growth at home and a strong competitive position internationally give the dollar we use as everyday pocket money its strength.

An expanding U.S. economy needs an expanding supply of currency. Our main form of currency is Federal Reserve notes. In the years ahead, we can expect increases in Federal Reserve note circulation of about \$2 billion a year. This growth is a normal response to the public's demand for cash in a growing economy. It is basically a trend development, reflecting a growing population, a growing economy, and a growing number of transactions.

*Not to move on the cover requirement at this time would only mean putting off the inevitable. We cannot afford to permit an outmoded provision of our law to impinge on the nation's supply of pocket money.*

Removal of this requirement is also of key importance from the viewpoint of the role of the dollar and of gold in the international monetary system.

I know most members of this committee are well versed in the functions of gold and the dollar in the international monetary system. Rather than take up your time with a description at this point, I would refer you to a Treasury report which was issued 2 weeks ago, entitled “Maintaining the Strength of the United States Dollar in a Strong Free World Economy.”<sup>1</sup>

If this system, which has served the entire free world so admirably in the past 20 years, is to continue to facilitate the growth of world trade and prosperity, we must assure that confidence in the system and in the strength of the dollar is maintained. This requires action on four fronts:

—We must continue the long-standing U.S. policy of maintaining the gold-dollar relationship at \$35 per ounce. This must not be open to question, and the best way to make continuation of that policy crystal clear is to free our entire gold stock for that purpose.

—We must assure that the U.S. economy grows in an environment of cost and price stability through enactment of the anti-inflation tax and through expenditure controls and appropriate monetary policy.

—We must achieve sustained equilibrium in our balance of payments.

—We and the rest of the free world must put into place the plan for the creation of a new reserve asset agreed upon in Rio last September.

Our policy of maintaining the fixed relationship between gold and the dollar at \$35 an ounce for legitimate monetary purposes is one of the reasons why virtually all countries hold dollars in their reserves and why many of them hold very large amounts of dollars. In addition, of course, countries hold dollars because, unlike gold, they can invest them in interest earning assets.

The monetary authorities of most of the major industrialized countries understand full well that the link between gold and domestic currencies is no longer a pertinent and relevant fact and that gold is an international asset. Only three other countries in the Group of Ten plus Switzerland, the major industrialized countries, still maintain some link between their domestic currencies and gold. While foreign authorities are aware of the fact that the Federal Reserve can suspend the cover requirement, they find it difficult to understand why the United States, the world's major reserve currency country, still maintains this legal impediment to the free international use of gold.

Thus, legislative action on the cover requirement, by making it clear to the world that the Congress as well as the Executive Branch are committing our total gold stock to international use, is necessary to maintain confidence in the dollar.

Removal of the gold cover will not solve the U.S. balance of payments problem nor is it a substitute for the solution of that problem.

The need to achieve sustained equilibrium in our international payments position is essential to confidence in the dollar and the future stability of the international monetary system. The series of measures announced by the President on January 1, with which you are all familiar, are designed to bring us to, or close to, equilibrium this year. It is vital that they be successful. I ask, Mr. Chairman, that the President's message be made a part of the record of these hearings.

<sup>1</sup> See exhibit 58.

### Conclusion

I urge the committee to consider and act promptly on the gold cover legislation before you in order that, domestically, we can continue to be assured that the Federal Reserve will be able to supply appropriate amounts of currency to meet the needs of our growing economy for cash, and in order that our policy of maintaining the gold-dollar relationship—one of the major elements of confidence in the dollar and the international monetary system—will not be open to question.

### THE PRESIDENT'S MESSAGE TO THE NATION ON THE BALANCE OF PAYMENTS, JANUARY 1, 1968

#### Where we stand today

I want to discuss with the American people a subject of vital concern to the economic health and well-being of this Nation and the Free World.

It is our international balance of payments position.

The strength of our dollar depends on the strength of that position.

The soundness of the free world monetary system, which rests largely on the dollar, also depends on the strength of that position.

To the average citizen, the balance of payments, and the strength of the dollar and of the international monetary system, are meaningless phrases. They seem to have little relevance to our daily lives. Yet their consequences touch us all—consumer and captain of industry, worker, farmer, and financier.

More than ever before, the economy of each nation is today deeply intertwined with that of every other. A vast network of world trade and financial transactions ties us all together. The prosperity of every economy rests on that of every other.

More than ever before, this is one world—in economic affairs as in every other way.

Your job, the prosperity of your farm or business, depends directly or indirectly on what happens in Europe, Asia, Latin America, or Africa.

The health of the international economic system rests on a sound international money in the same way as the health of our domestic economy rests on a sound domestic money. Today, our domestic money—the U.S. dollar—is also the money most used in international transactions. That money can be sound at home—as it surely is—yet can be in trouble abroad—as it now threatens to become.

In the final analysis its strength abroad depends on our earning abroad about as many dollars as we send abroad.

U.S. dollars flow from these shores for many reasons—to pay for imports and travel, to finance loans and investments, and to maintain our lines of defense around the world.

When that outflow is greater than our earnings and credits from foreign nations, a deficit results in our international accounts.

For 17 of the last 18 years we have had such deficits. For a time these deficits were needed to help the world recover from the ravages of World War II. They could be tolerated by the United States and welcomed by the rest of the world. They distributed more equitably the world's monetary gold reserves and supplemented them with dollars.

Once recovery was assured, however, large deficits were no longer needed and indeed began to threaten the strength of the dollar. Since 1961 your Government has worked to reduce that deficit.

By the middle of the decade, we could see signs of success. Our annual deficit had been reduced two-thirds—from \$3.9 billion in 1960 to \$1.3 billion in 1965.

In 1966, because of our increased responsibility to arm and supply our men in Southeast Asia, progress was interrupted, with the deficit remaining at the same level as 1965—about \$1.3 billion.

In 1967, progress was reversed for a number of reasons:

- Our costs for Vietnam increased further.

- Private loans and investments abroad increased.

- Our trade surplus, although larger than 1966, did not rise as much as we had expected.

- Americans spent more on travel abroad.

Added to these factors was the uncertainty and unrest surrounding the devaluation of the British pound. This event strained the international monetary system. It sharply increased our balance of payments deficit and our gold sales in the last quarter of 1967.



### The problem

Preliminary reports indicate that these conditions may result in a 1967 balance of payments deficit in the area of \$3.5 billion to \$4 billion—the highest since 1960. Although some factors affecting our deficit will be more favorable in 1968, my advisors and I are convinced that we must act to bring about a decisive improvement.

We cannot tolerate a deficit that could threaten the stability of the international monetary system—of which the U.S. dollar is the bulwark.

We cannot tolerate a deficit that could endanger the strength of the entire Free World economy, and thereby threaten our unprecedented prosperity at home.

### A time for action

The time has now come for decisive action designed to bring our balance of payments to—or close to—equilibrium in the year ahead.

The need for action is a national and international responsibility of the highest priority.

I am proposing a program which will meet this critical need, and at the same time satisfy four essential conditions:

—Sustain the growth, strength and prosperity of our own economy.

—Allow us to continue to meet our international responsibilities in defense of freedom, in promoting world trade, and in encouraging economic growth in the developing countries.

—Engage the cooperation of other free nations, whose stake in a sound international monetary system is no less compelling than our own.

—Recognize the special obligation of those nations with balance of payments surpluses, to bring their payments into equilibrium.

### The first order of business

The first line of defense of the dollar is the strength of the American economy.

No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus.

No challenge before business and labor is more urgent than this: To exercise the utmost responsibility in their wage-price decisions, which affect so directly our competitive position at home and in world markets.

*I have directed the Secretaries of Commerce and Labor, and the Chairman of the Council of Economic Advisers to work with leaders of business and labor to make more effective our voluntary program of wage-price restraint.*

I have also instructed the Secretaries of Commerce and Labor to work with unions and companies to prevent our exports from being reduced or our imports increased by crippling work stoppages in the year ahead.

A sure way to instill confidence in our dollar—both here and abroad—is through these actions.

### The new program

But we must go beyond this, and take action to deal directly with the balance of payments deficit.

Some of the elements in the program I propose will have a temporary but immediate effect. Others will be of longer range.

All are necessary to assure confidence in the American dollar.

1. *Direct investment.*—Over the past 3 years, American business has cooperated with the Government in a voluntary program to moderate the flow of U.S. dollars into foreign investments. Business leaders who have participated so wholeheartedly deserve the appreciation of their country.

But the savings now required in foreign investment outlays are clearly beyond the reach of any voluntary program. This is the unanimous view of all my economic and financial advisers and the Chairman of the Federal Reserve Board.

*To reduce our balance of payments deficit by at least \$1 billion in 1968 from the estimated 1967 level, I am invoking my authority under the Banking Laws to establish a mandatory program that will restrain direct investment abroad.*

This program will be effective immediately. It will insure success and guarantee fairness among American business firms with overseas investments.



The program will be administered by the Department of Commerce, and will operate as follows:

—As in the voluntary program, overall and individual company targets will be set. Authorizations to exceed these targets will be issued only in exceptional circumstances.

—New direct investment outflows to countries in continental western Europe and other developed nations not heavily dependent on our capital will be stopped in 1968. Problems arising from work already in process or commitments under binding contracts will receive special consideration.

—New net investments in other developed countries will be limited to 65 percent of the 1965-66 average.

—New net investments in the developing countries will be limited to 110 percent of the 1965-66 average.

This program also requires businesses to continue to bring back foreign earnings to the United States in line with their own 1964-66 practices.

In addition, I have directed the Secretary of the Treasury to explore with the Chairmen of the House Ways and Means Committee and Senate Finance Committee legislative proposals to induce or encourage the repatriation of accumulated earnings by U.S.-owned foreign businesses.

2. *Lending by financial institutions.*—*To reduce the balance of payments deficit by at least another \$500 million, I have requested and authorized the Federal Reserve Board to tighten its program restraining foreign lending by banks and other financial institutions.*

Chairman Martin has assured me that this reduction can be achieved:

—without harming the financing of our exports;

—primarily out of credits to developed countries without jeopardizing the availability of funds to the rest of the world.

Chairman Martin believes that this objective can be met through continued cooperation by the financial community. At the request of the Chairman, however, I have given the Federal Reserve Board standby authority to invoke mandatory controls, should such controls become desirable or necessary.

3. *Travel abroad.*—Our travel deficit this year will exceed \$2 billion. To reduce this deficit by \$500 million:

—*I am asking the American people to defer for the next 2 years all nonessential travel outside the Western Hemisphere.*

—*I am asking the Secretary of the Treasury to explore with the appropriate congressional committees legislation to help achieve this objective.*

4. *Government expenditures overseas.*—We cannot forego our essential commitments abroad, on which America's security and survival depend.

Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security.

Recently, we have reached important agreements with some of our NATO partners to lessen the balance of payments cost of deploying American forces on the Continent—troops necessarily stationed there for the common defense of all.

Over the past three years, a stringent program has saved billions of dollars in foreign exchange.

I am convinced that much more can be done. *I believe we should set as our target avoiding a drain of another \$500 million on our balance of payments.*

To this end, I am taking three steps.

First, I have directed the Secretary of State to initiate prompt negotiations with our NATO allies to minimize the foreign exchange costs of keeping our troops in Europe. Our allies can help in a number of ways, including:

—The purchase in the U.S. of more of their defense needs.

—Investments in long-term United States securities.

I have also directed the Secretaries of State, Treasury and Defense to find similar ways of dealing with this problem in other parts of the world.

Second, I have instructed the Director of the Budget to find ways of reducing the numbers of American civilians working overseas.

Third, I have instructed the Secretary of Defense to find ways to reduce further the foreign exchange impact of personal spending by U.S. forces and their dependents in Europe.

#### Long-term measures

5. *Export increases.*—American exports provide an important source of earnings for our businessmen and jobs for our workers.

They are the cornerstone of our balance of payments position.

Last year we sold abroad \$30 billion worth of American goods.

What we now need is a long-range systematic program to stimulate the flow of the products of our factories and farms into overseas markets.

We must begin now.

Some of the steps require legislation:

*I shall ask the Congress to support an intensified five year, \$200 million Commerce Department program to promote the sale of American goods overseas.*

*I shall also ask the Congress to earmark \$500 million of the Export-Import Bank authorization to:*

*—Provide better export insurance.*

*—Expand guarantees for export financing.*

*—Broaden the scope of Government financing of our exports.*

Other measures require no legislation.

I have today directed the Secretary of Commerce to begin a Joint Export Association program. Through these Associations, we will provide direct financial support to American corporations joining together to sell abroad.

And finally, the Export-Import Bank—through a more liberal rediscount system—will encourage banks across the Nation to help firms increase their exports.

**6. Nontariff barriers.**—In the Kennedy Round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.

We must now look beyond the great success of the Kennedy Round to the problems of nontariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods entering their country.

International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further.

In keeping with the principles of cooperation and consultation on common problems, I have initiated discussions at a high level with our friends abroad on these critical matters—particularly those nations with balance of payments surpluses.

These discussions will examine proposals for prompt cooperative action among all parties to minimize the disadvantages to our trade which arise from differences among national tax systems.

We are also preparing legislative measures in this area whose scope and nature will depend upon the outcome of these consultations.

*Through these means we are determined to achieve a substantial improvement in our trade surplus over the coming years. In the year immediately ahead, we expect to realize an improvement of \$500 million.*

**7. Foreign investment and travel in the United States.**—We can encourage the flow of foreign funds to our shores in two other ways:

—*First*, by an intensified program to attract greater foreign investment in U.S. corporate securities, carrying out the principles of the Foreign Investors Tax Act of 1966.

—*Second*, by a program to attract more visitors to this land. A Special Task Force headed by Robert McKinney of Santa Fe, N. Mex., is already at work on measures to accomplish this. I have directed the Task Force to report within 45 days on the immediate measures that can be taken, and to make its long-term recommendations within 90 days.

### Meeting the world's reserve needs

Our movement toward balance will curb the flow of dollars into international reserves. It will therefore be vital to speed up plans for the creation of new reserves—the Special Drawing Rights—in the International Monetary Fund. These new reserves will be a welcome companion to gold and dollars, and will strengthen the gold exchange standard. The dollar will remain convertible into gold at \$35 an ounce, and our full gold stock will back that commitment.

### A time for responsibility

The program I have outlined is a program of action.

It is a program which will preserve confidence in the dollar, both at home and abroad.

The U.S. dollar has wrought the greatest economic miracles of modern times.

It stimulated the resurgence of a war-ruined Europe.

It has helped to bring new strength and life to the developing world.

It has underwritten unprecedented prosperity for the American people, who are now in the 83d month of sustained economic growth.

A strong dollar protects and preserves the prosperity of businessman and banker, worker and farmer—here and overseas.

The action program I have outlined in this message will keep the dollar strong. It will fulfill our responsibilities to the American people and to the free world.

I appeal to all of our citizens to join me in this very necessary and laudable effort to preserve our country's financial strength.

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**Exhibit 13.—Statement by Secretary Fowler, February 15, 1968, before the Joint Economic Committee, on economic and financial policies and programs**

It is a pleasure to be with you again this morning. These annual hearings on the President's Economic Report are always an important occasion. They provide us with a valuable opportunity to review the performance of the economy and to chart a course for the future.

In my view this is a year in which economic and financial policy should be directed toward reversing decisively the trend in 1967 to increasing deficits in our internal budget and our international balance of payments. We should move back toward balance in our budget and our international payments—and thereby assure a balanced economy, properly poised to discharge our national and international responsibilities—in war or peace—at home or abroad. With the nation engaged in a costly conflict abroad, we must act at home so as to maintain the stability of the economy and the strength of the dollar.

We meet after a year in which the domestic economy moved ahead, slowly at first, then at a faster pace—in fact, too fast a pace to be sustained. Meanwhile, the balance of payments, which had shown sharp improvement in 1965, and held its own in 1966 in face of the mounting foreign exchange costs resulting from the conflict in Southeast Asia, took a sharp turn for the worse in 1967. Prompt measures are needed—and are being taken—to cut the payments deficit. But, there is an equally pressing need to cut the Federal budget deficit and bring our domestic finances into better order.

In the domestic economy, real growth resumed at a rapid rate in the last two quarters of 1967 after an anticipated inventory adjustment in the first half of the year, but it has been accompanied by far too strong a rise in costs and prices.

Moderation of the upward pressures on our costs and prices must be a continuing objective in the period ahead. We must reverse the trend toward a spiralling inflation. An economic climate conducive to a return to stable costs and prices—in the pattern of 1961–65—would protect our trade balance against a short-term floodtide of imports and a long-term deterioration in competitive position. It would also avoid the risk of an excessive and unsustainable rate of growth that could terminate not in an inventory adjustment like early 1967 but a recession like those of other years.

Since mid-1965, the economy has absorbed nearly a \$25 billion increase in national defense spending levels without resort to wartime controls and without lasting interruption to the economy's advance. This has been a remarkable achievement. But, it has not all been smooth sailing. We have seen how a surge of demand in an economy near full employment can distort financial flows, boost interest rates, lead to excessive inventory buildup, disrupt cost-price stability, and touch off a sharp rise in imports. With total public and private spending now rising strongly, that same unwelcome pattern could begin to unfold once again.

As the President stated in his January 1 Message to the Nation on the Balance of Payments: "No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus."

Prompt application of a degree of fiscal restraint is, indeed, essential for the health of the economy and the soundness of our financial position—at home and



abroad. We dare not allow a highly stimulative fiscal policy to conjoin with increasing demand in most areas of the private sector. Whether fiscal restraint will be applied or whether we will depend exclusively on monetary restraint with its imbalancing impact is, and has been for some time now, the overriding domestic economic policy issue. Fiscal restraint is also the key to the success of our overall balance of payments program and the maintenance of confidence in the dollar and the international monetary system.

### **The domestic economy in 1967**

With the President's Economic Report before you, there is no need for me to comment on last year's domestic economic developments in any detail. I will concentrate on a few features of last year's experience that are most important for an understanding of our present situation.

As we find it now, the economy is rapidly gaining momentum, while a year ago that was far from the case. A year ago, it was clear that some adjustment of a temporarily excessive inventory position would have to take place in 1967. It was important to insure that this adjustment occurred within the context of a generally prosperous private economy. Therefore, it was decided to complement the relaxation of monetary stringency that was already in progress with a degree of fiscal support during the first half of 1967.

Between the end of 1966 and the middle of 1967, the Federal sector of the national income accounts moved from a deficit position of about \$3 billion annual rate to a deficit approaching \$15 billion annual rate. During the same period, monetary policy also moved to a significantly easier position. For example, the level of "free reserves" which averaged more than a minus \$150 million in late 1966 rose near a plus \$300 million by mid-1967.

Contrary to the fears of those who saw recession lurking around every corner, final sales increased strongly in the first half of the year while the inventory adjustment ran its course. This was made possible, in large part, by fiscal and monetary action which had been accurately timed to the needs of the economy.

During the second half of last year, the economy moved ahead briskly, with production interrupted only temporarily by work stoppages and growth in final sales tempered only by a personal saving rate rising to unusual levels. Because the first half of 1967 was relatively weak, the full extent of the economy's resurgence tends to be concealed in statistics for the full year. For example, gross national product in current prices rose at about a 6 percent annual rate between the end of 1966 and 1967. But this is the result of an annual rate rise of a little less than 3½ percent in the first half of 1967 and 8½ percent in the second half. Real output grew at little more than a 1 percent annual rate in the first half of 1967 but at about 4½ percent in each of the last two quarters of the year.

This rebound has left only a narrow margin of unutilized efficient resources readily available which can be drawn upon to boost this year's rate of growth in output. It may appear that there is still some margin of spare manufacturing capacity with operating rates in the 85 percent range—about 6 points below the peak 1966 levels. But much of this unused capacity is likely to be the high cost and less efficient capacity. In any event, the utilization rate by itself is a very unreliable indication of slack because of the shortage of skilled and semiskilled labor. The overall unemployment rate has fallen to 3½ percent—the lowest in 14 years. The rate for adult males is 2.3 percent also as low as at any time since the early 1950's.

Despite the slow first half of 1967, the resumption of strong growth in the economy during the second half set off a sharp advance in prices. The comprehensive GNP price deflator which had increased at an annual rate of about 2½ percent in the first half of the year advanced at nearly a 4-percent rate in the second half. This second-half advance was the largest in more than a decade despite the fact that farm product prices were falling during much of 1967.

The economy is in grave danger of excessive overheating. Restraint or the risk of spiralling inflation are the alternatives. If we move decisively to apply restraint, we can reduce inflationary pressures and expect a year of stable growth. The economy enters the 8th year of its record breaking expansion in better balance than a year ago. Then there was an inventory overhang and the housing industry was depressed. Now, the rate of inventory accumulation is in better relation to sales and housing has made a strong recovery. But there is still a serious imbalance domestically that must be removed. That imbalance is in the Federal sector. The Federal budget is in heavy deficit at a time when there is a need, not for steady stimulus, but for a sharp and decisive movement toward fiscal restraint.



**Budgetary policy: The need for restraint**

In the period from late 1965 to the middle of last year, the Federal fiscal position operated in a consistently stabilizing direction. Opinions may differ as to whether or not fiscal actions were always large enough or precise in their timing. But, the general profile of the Federal fiscal position was appropriately geared to the state of the economy. In the third quarter of 1965, with the Vietnam buildup barely underway the Federal deficit on national income accounts basis was running in excess of \$3 billion annual rate. By the end of the year, rising revenues had pulled the NIA budget to a position of near balance. In early 1966, the rise in payroll taxes for social security and the Tax Adjustment Act, along with the revenues generated by the faster pace of activity, swung the NIA budget into a surplus of \$3 billion annual rate by mid-1966.

By the third quarter of 1966, the NIA budget had moved back to a position of near neutrality. And, by the final quarter, with signs of a possible inventory adjustment appearing, that budget moved further in the direction of stimulus to a \$3.3 billion rate of deficit. As the economy slowed further early in 1967, the budget moved to an even more stimulative position with an NIA deficit which approached a \$15 billion annual rate by the middle of the year.

But the large Federal deficits have overstayed their time. The rate of deficit in the exuberant last half of 1967 narrowed slightly but still averaged in the \$12 billion range—clearly inappropriate in a high employment economy with private demand strong and rising. Increasingly, the effects of that deficit are being registered in rising prices and a deteriorating trade balance.

As a consequence of the President's proposed fiscal actions, initially proposed last August 3 in his Tax Message and renewed this January, the Federal NIA deficit would be reduced from the \$12.5 billion rate of 1967 to an estimated \$5 billion for calendar 1968. In terms of fiscal years, the reduction would be from \$10 billion in 1968 to \$2.5 billion in 1969.

Without fiscal action, the NIA deficit would remain near its present levels and would be an excessively stimulative influence on our high employment economy. Continuation of deficits on such a scale would greatly increase the risk of more inflation and further short-run deterioration in our trade balance.

Also, with monetary policy now pointed in the direction of restraint, an excessively large budget deficit with a corresponding need for continuing heavy Federal borrowing would tip the odds toward a return to tight money conditions. Interest rates are already at extremely high levels in terms of our historical experience and a move to even higher rates and reduced availability of credit for housing, State and local needs, and small business would be a very unhappy prospect.

The President's fiscal program includes expenditure restraint as well as the proposed tax increase. The expenditure cuts in specific programs totaling \$4.3 billion achieved by joint congressional and Executive action late last year were in the spirit of the recommendations made by your committee in its last annual report.

The current budget also proposed program reductions and reforms, totaling \$2.9 billion in fiscal 1969, with the expenditure savings spread over several years. As a result, outlays in relatively controllable civilian programs will be virtually stable between fiscal 1968 and 1969. The net rise of \$0.5 billion is made up of decreases in controllable civilian outlays of \$2.5 billion and increases of \$3.0 billion. About two-thirds of the \$3 billion increase is for payments on prior contracts and commitments.

The total expenditure increase for fiscal 1969, on the unified budget basis, of \$10.4 billion is almost entirely accounted for by rising outlays for defense and for relatively fixed charges under present laws.

While there may be considerable differences of opinion about the choice of priorities, there has been a definite application of priorities. The prompt enactment of the proposed tax program is the only realistic way of assuring the timely reduction in the fiscal 1969 deficit of \$13 billion or any sum approaching that magnitude. And every day that passes without a tax increase adds \$33 million to the fiscal 1968 deficit. Already delay has cost \$4.5 billion in revenues.

Over the years, the activities of this committee have done a great deal to elevate the level of public discussion of economic issues and have contributed to much more informed attitudes on public policy. With your help we have gone beyond an earlier, and misleading, orthodoxy which did not assign fiscal policy any role in stabilizing the economy. There is a need now to demonstrate that fiscal policy can appropriately be used to restrain as well as to stimulate. Your

support of the President's fiscal recommendations—on the basis of their economic logic—would be an effective and influential endorsement of the practice, as well as the theory, of stabilizing fiscal policy.

### Financial policies and debt management

In the financial area, we look back on a year of strong demand pressures in our money and capital markets. Because of these strong demands, interest rates moved higher despite a larger flow of savings and monetary ease during most of the year. Money market rates did decline in the first half of the year but then moved up rather steadily. Longer-term interest rates dipped only temporarily in early 1967 and rose during the balance of the year.

The financial demands of the private sector were strong even while the economy was moving more slowly in early 1967. Partly in reaction to the credit squeeze of 1966, efforts were made to rebuild liquidity and provide for possible future credit needs. As the year progressed, an upturn in planned business plant and equipment expenditures and a rise in inventory investment were adding to corporate financial requirements. Long-term corporate security offerings and placements (including refundings) reached \$24 billion in 1967, about 36 percent above the sizeable 1966 total. State and local issues in 1967 are estimated at \$14½ billion, about 27 percent above 1966. Net additions to mortgage debt at \$22 billion were only slightly above the 1966 total, but were rising throughout the year as savings inflows to mortgage lenders continued in large volume.

With private demands strong all year, the major change was in the Federal fiscal position which swung from debt repayment to heavy net borrowing. In terms of the new budget concept of the Federal sector's net financing demand on the economy, which includes the Federal Reserve System with the private sector, there was a net repayment of \$5½ billion in the January–June 1967 period. Adding the financing activities of the Federal home loan banks and the Federal land banks and subtracting security purchases of the Federal Reserve, there was a net repayment of \$11 billion to the private sectors. In contrast, repayments to the private sectors were only \$2 billion in January–June 1966 and \$4½ billion in January–June 1965.

In the second half of last year, the Federal sector made net credit demands on the private sector of about \$18 billion. This was sharply above the net credit demands of roughly \$5 billion each in the July–December periods of 1964, 1965, and 1966. The combination of strong private and Government demands for credit exerted strong upward pressure on interest rates during the second half of 1967. Fortunately, though, there was no large scale diversion of funds away from the mortgage market last year as there had been in 1966. However, saving inflows at thrift institutions have been slowing down and there is no room for complacency. Prompt tax action is still the best insurance of a continued recovery in housing.

For the current half-year, even with prompt action on the tax bill, the Federal sector, including the home loan banks and the land banks, may make a contra-seasonal net credit demand of \$5 billion or more on the rest of the economy, including the Federal Reserve.

Borrowing requirements in fiscal 1969 will, of course, depend very much on the outcome of the President's fiscal proposals. In the absence of tax action, the fiscal 1969 deficit on the new unified budget basis would exceed \$20 billion and require roughly that amount of borrowing. To this would be added home loan banks and land bank requirements and the amount of FNMA borrowing for secondary market operations in its proposed new private ownership status. The impact of such a volume of Federal borrowing may be judged from the following comparison. In the period fiscal 1961 through fiscal 1967, Federal borrowing averaged less than \$5 billion annually.

Large scale deficit financing in overstrained financial markets diverts credit flows and drives up interest rates. It is not a question of whether or not the Government will get its money—of course it will. But, in the process, the cost of all credit is driven up and many private borrowers are knocked entirely out of the market. At the present time, most interest rates are below their end of 1967 levels but they have begun rising again.

Recently the Treasury has undertaken sizeable refunding, prerefunding, and cash financing operations, all of which have been successful. But the new securities had to carry historically high rates of interest in order to attract investors. Thus, prompt and favorable action is needed on the President's tax proposals to raise \$16 billion in fiscal 1968 and 1969. This would shrink the budget deficits and hold Federal borrowing to manageable levels.

### The need for a return to cost-price stability

Our overall price record since the current expansion began in early 1961 remains a good one. During this period the average percentage rise in U.S. consumer prices has been less than in any other major country. Even since mid-1965 our record is better than that of most major industrial countries. But there are clear warning signs that this good record is in danger.

One of last year's more disturbing developments was the much faster advance of prices after midyear. The gain in gross national product in the second half of 1967 was impressive—a rise of \$32 billion despite a sizable loss because of the auto strike. But nearly half of the \$32 billion rise was eaten up in the form of higher prices. By way of contrast, in the period from early 1961 to mid-1965 less than one-quarter of the gain in GNP reflected higher prices. And even from mid-1965 to mid-1967, the proportion of GNP gain attributable to rising prices was less than it has been recently.

Since mid-1965, there have been three fairly distinct periods as far as price changes are concerned. From mid-1965 through September 1966, both consumer and industrial prices rose strongly. The rise was triggered by the burst of demand which quickly carried the economy to near-capacity levels of operation. This set off a process in which wage advances and price increases began to interact. From about September 1966 through the middle of last year, there was some relief from the rapid rate of price advance as the pace of economic advance slowed temporarily, but costs continued to move up. Finally, in the second half of last year, as demand strengthened, the rate of price advance accelerated once more.

We are now at the point where so-called demand-pull and cost-push factors are threatening to interact with one another in a dangerous manner. Once an inflationary process is well established, any distinction between demand-pull and cost-push breaks down entirely. Rises in costs are reflected in higher prices and money incomes which contribute to increased spending, which drives up costs and prices, and so on. Fiscal and monetary restraint can slow this upward spiral by cutting back demand, but the measures may have to be very severe if the inflationary process is allowed to gain momentum. This we must avoid.

The real risk of recession does not lie in the prospect of too much fiscal restraint from the President's program. Rather it lies in the threat that fiscal inaction and too much demand will aggravate the inflationary pressures that are already all too apparent. The prompt application of fiscal restraint is our best insurance against further inflation and the risk of an eventual return to "boom and bust."

### Balance of payments

As you know, the immediate background of the action program to bring our payments to or close to equilibrium this year which the President announced in his New Year's Day Message included:

- the devaluation of the British pound with its disturbing impact on the international monetary system and the value of currencies;
- a sharp increase in our gold sales during the final quarter of 1967, reflecting the uncertainty and unrest on international foreign exchange markets associated with the devaluation of the British pound; plus
- indications of a very sharp deterioration also, during the fourth quarter, in our payments deficit, following some decline in the second and third quarters from the levels of 1965 and 1966.

The preliminary figures on our fourth quarter and full-year 1967 payments deficit appear in the regular quarterly Department of Commerce press release being issued today. They show:

—A deficit for the year, on the liquidity basis, of \$3,572 million—which is near the lower end of the \$3.5 billion–\$4.0 billion range anticipated in the President's Message but, nevertheless a deterioration of \$2.2 billion compared with the 1966 results. The deficit for the year, on the official settlements basis, was \$3.4 billion.

—A seasonally adjusted liquidity deficit for the fourth quarter alone of \$1,832 million. This represents—a rate of deficit more than three times as large as the \$580 million seasonally adjusted average for the first three quarters of the year; and the worst deficit we have experienced in any single quarter, at least since the third quarter of 1950 following the outbreak of the Korean War.

—A sharp deterioration in our merchandise trade account during the final quarter—resulting in a trade surplus for the full-year 1967 virtually identical with that of 1966 in place of the moderate improvement which we had expected on the basis of the experience of the first three quarters.



The details of this increase in our fourth quarter payments deficit will not be available for several weeks. But it is clear that the most worrisome element in the picture was the drop in our trade surplus. Imports rose over \$500 million while exports dropped nearly \$200 million from the January-September averages. Our trade picture thus accounted for more than half of the increase in our liquidity deficit above the levels of the first three quarters.

—A second major development in the fourth quarters was the liquidation by the U.K. Government of the \$570 million remaining balance from its long-term investments in U.S. securities. This action, of course, was taken in connection with the devaluation crisis.

—Unfortunately, as noted earlier, the detail necessary to evaluate other factors simply is not yet available. Such other categories of our international payments for which preliminary figures are now available show generally rather small—and largely offsetting—changes as compared with the first three quarters of the year.

Last month I released a Treasury Department report entitled "Maintaining the Strength of the United States Dollar in a Strong Free World Economy." This document details the background and reasons for the Action Program announced by the President. It describes what we have done to date, and what we propose to do, both over the short- and long-term. Copies of this report are available to each member of the committee.

The President's Action Program underlines the urgent need for a tight lid on expenditures, appropriate monetary policy and a more effective voluntary program of wage-price restraint. As the President's Economic Report points out: "The avoidance of excessive demand in our economy is crucial to the strength of the dollar as well as to our domestic prosperity."

"If we place too much pressure on our resources, U.S. buyers will turn abroad for supplies and our imports will soar. And if our prices rise, we will weaken our export competitiveness and attract even more imports—not just immediately, but for years to come."

I shall not review in detail the various selective measures through which we seek an improvement of \$3 billion in our balance of payments during the year 1968. They are set forth clearly in the Presidential statement which appears at the beginning of the Treasury report on the Action Program.

The United States recognizes its responsibility for adjusting its own balance of payments, and it does not intend to shirk this responsibility. At the same time, it must be recognized that the U.S. balance of payments is part of a world pattern of payments. The counterparts of the deficits of some countries are the surpluses of other countries. Because of the concentration of payments surpluses in Continental Western Europe, it is primarily to this group of countries that we must look for cooperative actions facilitating the progress toward international equilibrium that the U.S. program would make possible. The relationship of the U.S. deficit and the persistent surplus of these countries is examined in Chapter IX of the Treasury report.

We have undertaken both bilateral and multilateral consultations with other countries regarding our action program. Broadly speaking, the response of the Continental European countries has been gratifying. They recognize and accept the fact that their surpluses must fall along with the correction of the U.S. deficit. There is some concern regarding the more favorable treatment of non-Continental countries in several phases of our program but there is appreciation that a nondifferentiated program would have created painful adjustment problems for countries least able to make these adjustments. There are encouraging indications of a general readiness on the part of individual countries to adjust their fiscal and monetary policies to the new situation created by the U.S. program.

The European nations strongly emphasize that the full objectives of the program will not be achieved without the primary and essential component of restraint on the U.S. economy through fiscal and monetary policy, supplemented by intelligent and responsible actions by management and labor to limit the rise in unit costs to a noninflationary level. In particular, action on the tax increase has become a critical and symbolic test, in European eyes, of our ability to control domestic inflationary pressures. It is the acid test of fiscal responsibility and confidence in the future of the dollar in financial circles here and abroad.



### International finance

One of the difficulties faced in discussion of our balance of payments problem is that it is hard to put in terms that are analogous to the familiar financial problems of doing business in the United States. The United States can be likened to a large trader and investor, as set forth on pages 12 and 13 of the President's Economic Report. It also is the most important international banking center. About half of our liquid liabilities of \$33 billion are holdings of foreign monetary authorities, the United States acting as a bank. The official dollar holdings of foreign countries are part, and in many cases a large part, of the ultimate national reserves that foreign nations hold to meet unforeseen contingencies. Thus we have the responsibility that falls upon a bank to maintain at all times the unquestioned confidence of the depositors in its liquidity as well as its solvency.

We need to have reserves that will assure that our depositors can spend their dollars in all the major countries of the world. Some of these countries, notably in Continental Europe, will expect the United States as a bank to pay them, in effect, not in dollars but in gold or in claims on the International Monetary Fund as they acquire dollars beyond their customary official holdings of dollars. They have the alternative of reinvesting some or all of these dollar receipts in private markets—and this alternative can be particularly helpful when borrowing demands in the European capital markets are heavy—but there is likely at times to be some cashing of dollars into gold.

Although the world has come a long way toward accepting dollars as a regular and normal proportion of world reserves, it is still true that gold comprises about \$40 billion of the total world reserves of something over \$70 billion. The gold ratio is substantially higher for some countries, particularly in Europe. And our depositors, in some cases, feel the need of assurance that their reserves in the form of dollars are adequately protected by large and available reserves of gold (or the equivalent in claims on the IMF).

The importance of the factor of confidence in a major currency was demonstrated by the recent experience of sterling. The international monetary system was put to a severe test by the devaluation of sterling and its aftermath. This challenge was met, and the results demonstrated the resilience and the resistance of the system to a difficult series of political and financial events. The private markets for gold had shown nervousness since the Mid-East crisis in the spring, and the devaluation of sterling triggered a heavy run on gold.

A statement by the gold pool contributors made in Frankfurt<sup>1</sup> the weekend after devaluation served to calm the market substantially. But later, rumors again flooded the market—the size of the pool's losses, the possible withdrawal of support of the pool and the possibility of limitations of some sort being placed on the market.

A further statement by me as Secretary of the Treasury and by the Chairman of the Federal Reserve Board, made with the support of the other gold pool members, again restored comparative calm. But the factor that brought more enduring strength to the gold market was the announcement on January 1 by the President of a forceful U.S. balance of payments program. With only a few exceptional days the market has been much better balanced in 1968.

The events of 1967 accentuated the need for prompt implementation of the International Monetary Fund plan for multilateral creation of supplementary reserve assets. The strenuous efforts being made by the United Kingdom and the United States to eliminate their deficits should have the effect of markedly reducing additions to dollar and sterling reserves held by other countries. At the same time the unreliability of new gold supplies as significant additions to the world's monetary reserves has been amply demonstrated. The world's monetary gold stocks may actually have declined by as much as \$1 billion in 1967.

The restoration of a calmer atmosphere in the gold market could ultimately lead to some additions of gold to monetary reserves. But, the world now faces the prospect of a limited rate of growth in reserves. The Subcommittee on International Exchange and Payments of this committee has taken a leading part in drawing attention to this situation.

The problem of inadequate growth of reserves can be met by creating Special Drawing Rights in the International Monetary Fund, under a plan unanimously approved by the Fund Governors last September. Under the plan, all the participating members would obtain the newly created assets in proportion to their

<sup>1</sup> See exhibit 34.

quotas in the Fund. The amount of drawing rights to be created would be determined from time to time, normally for intervals of 5 years in advance, in such a way as to assure an adequate but not excessive rate of growth in global reserves. There is ample safeguard against excessive use of this authority in the provision that the Managing Director will make a proposal for creation of the new drawing rights only after extensive consultation, and proposals will require the approval of 85 percent of the weighted votes of participating countries.

In order to make sure that the Special Drawing Rights will serve effectively as supplementary reserve assets, countries undertake obligations to accept them up to an amount that will always equal three times the amount of Special Drawing Rights that may be created for them. It is these obligations to accept the new instrument that give it its assured backing; countries may also accept larger amounts voluntarily and will probably do so as the instrument becomes more familiar in the years to come.

I will not go into further detail here on the Special Drawing Rights, but will be glad to submit for the record the outline plan that was approved in September at Rio de Janeiro, and a statement I made before the Subcommittee on International Exchange and Payments of this committee on September 14.

I am pleased to report that the process of drafting amendments to bring the plan into effect is going forward in the Fund. After their completion by the Executive Board, scheduled for March 31, 1968, by the Resolution at Rio, the amendments will be submitted to the Governors of the Fund to approve, by a simple weighted majority, submission to governments for acceptance. If all goes as scheduled, it will be possible to present the amendments to the Congress for its consideration in the spring of this year.

The plan will become effective in the constitutional sense when the amendments have been accepted by three-fifths of the members of the Fund having 80 percent of the weighted votes. At this stage, which might take place in late 1968 or early 1969, the Managing Director and the members can make a determination that initial activation should take place. This will require the approval of 85 percent of the weighted vote of the participating members.

I should also mention that the Executive Directors will prepare a second report dealing with a number of proposals for amendments directly related to the Special Drawing Rights plan, put forward for study primarily by the members of the European Economic Community. There are several controversial proposals, and all are under active discussion in the Executive Board of the Fund. A report must be made to the Governors by March 31, 1968, and we do not yet know to what extent some questions may require further consideration after that date. We would strongly hope that the controversial issues in these proposals, if not settled promptly, would not delay ratification of the Special Drawing Rights plan.

### Conclusion

The need for fiscal restraint is the dominant feature of our economic situation, combined with less inflationary wage-price decisions and direct balance of payments measures, some short term and some long term. In the present setting, there is no conflict between the policy prescription for both the domestic economy and the balance of payments. Each would be improved by a prompt transition to a less inflationary environment. Both our budget and our balance of payments deficits are far too large and both must be reduced. The action program to shrink the balance of payments deficit by \$3 billion is already in motion. Corresponding action is urgently required on the President's tax program, which would cut our budget deficits in fiscal 1968 and 1969 by \$16 billion over the next year and a half.

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### Exhibit 14.—Remarks by Under Secretary Barr, October 4, 1967, before the Boston Economic Club, on economic and financial policy

One of the oldest litanies in the Christian Church is one that I believe dates back to around 400 A.D. The priest chants the theme, and the congregation responds with "Good Lord Preserve Us." The priest chants, "In times of bereavement \* \* \*" and the congregation responds, "\* \* \* Good Lord Preserve Us," or "In times of plague \* \* \*" and the response, "\* \* \* Good Lord Preserve Us." One section of the litany has always intrigued me. It goes, "In times of prosperity \* \* \*" "Good Lord Preserve Us."

I am sure that this ancient bit of human wisdom is repeated in most other religions in one form or another. My friends who are better acquainted than I

am with theology have explained to me that the chant refers to the theological belief that men tend to become morally flabby in times when life is easy.

I have often thought, however, that the ancient litany has a different and special significance for Secretaries of the Treasury of the United States. A distinguished resident of this community, Professor Paul Samuelson, has said on occasion that "The job of Secretary of the Treasury can't be an easy one; it's to suffer." I will argue today that their suffering is compounded in times of prosperity, and most particularly in times of excessive prosperity.

Today, a Secretary of the Treasury who fought long and hard for tax reduction as the keystone of long-run national economic policy is pressing the case for a tax increase. And, throughout Government, the public purse strings must be pulled tighter. For these are the times when the lessons of the "new" economics merge with those of the "old." Economy takes on its traditional meaning and a measure of fiscal restraint is essential to the national interest.

I now would like to take just a few moments to place my theme and our current dilemma in a historic perspective.

The economic debate in this country over the past quarter-century has in large measure revolved around the question of how to maintain prosperity through the full utilization of our labor, our plant, and our savings. In 1940, when our GNP was running at a rate then estimated at some \$97 billion, I can remember my distinguished professors at Harvard exhorting everyone in sight to use all possible ingenuity to get rates well beyond \$100 billion per year. With unemployment still far too high in 1940, there was ample cause for concern.

It has often been pointed out that the great depression left my generation oriented toward material considerations. I believe that this is probably correct. We were—and perhaps are—rather materialistic in our outlook.

Perhaps it is time someone said a few words in defense of materialism. As is so often the case, I find that someone has already said them. Not Professor Samuelson this time, although they do appear as a preface to a chapter in his textbook, where Francis Hackett is quoted to good effect:

"I believe in materialism \* \* \* I believe in all the proceeds of a healthy materialism—good cooking, dry houses, dry feet, sewers, drainpipes, hot water, baths, electric lights, automobiles, good roads, bright streets, long vacations away from the village pump, new ideas, fast horses, swift conversation, theatres, operas, orchestras, bands \* \* \* I believe in them all, for everybody. The man who dies without knowing these things may be as exquisite as a saint, and as rich as a poet; but it is in spite, not because, of his deprivation."

A materialistic outlook in this better sense possibly accounts in some measure for the emphasis we have seen in this past quarter-century on science and technology, on sophisticated techniques of business management, and on conscious use of national economic policy to promote economic expansion.

Our success in all these areas has been little short of spectacular. As a result, the vast majority of the people in this nation have reached a level of affluence few would have dreamed possible in 1940. The interaction of our success in the areas of science and technology, business management, and our use of national economic policy has changed this country mightily.

On the whole, I believe that the change has been to the good. I believe that the American economy running at full employment is a mighty engine of social progress and reform. I believe that it has brought the opportunity for a useful and productive life to millions of American men and women whose usefulness might well have been lost—as it was, for a time, in the depression decade. I believe that our success has enabled us to export a measure of hope to a large portion of the world where in much of recorded history hope had been non-existent.

Having said all this, I must also say that no human situation is perfect, and even prosperity—as the ancient divine so clearly recognized—has its problems. The problems are clearly visible from the United States Treasury. Let me cite just a few of the problems that have developed in the wake of the prosperity that has characterized this last quarter-century.

—Twenty-five years ago the problems of pollution, decay in our cities, and the gap between haves and have-nots in our country were present, but not in the magnitude nor with the urgency that they afflict us today.

—The pressures on our systems of transportation and our higher educational complex were simply not present 25 years ago.

—The intensity of present demands on our capital markets and our savings was not dreamed of during an era in which 3-month Treasury bill rates had remained below 1 percent for 15 years (between 1932 and 1947).



—The perils of inflation were usually shrugged off as pure theory or applicable only to situations in which "printing press" money was used.

—The danger implicit in a balance of payments deficit was a subject so esoteric that it was rarely alluded to in academic circles.

The real measure of a nation, in my opinion, is its willingness to recognize and acknowledge new problems as they arise. I personally take great pride in the fact that we in this nation do recognize and are fighting for answers in the areas of pollution, urban decay, transportation, education, poverty, financial imbalances, homebuilding, inflation, and the balance of payments. Solving many of these problems will not be easy—perhaps not as easy as resolving the question of how best to promote overall economic growth. But we are attacking these areas; we are responding to the challenge.

These problems—the ones associated with normal, healthy economic growth—have been under attack for several years. They must be attacked head-on, for they cannot be avoided. We cannot and should not accept stagnation as an escape from the difficulties that come with healthy and desirable growth. At the moment, however, the country is preparing to attack a new issue—the question of how to head off the perils of an unhealthy and excessive rate of expansion resulting from a resurgent demand from the private sector and a continuing heavy demand from the Federal Government. These new perils can and must be avoided.

You may well ask at this point, "Why all the fuss?" "What is so different in this current situation?" "Just what are the perils of an unhealthy and excessive rate of expansion?" Let's try to answer the second question first and examine some of the differences between the current situation and those of, say, a few years ago. It seems to me that the main differences are:

1. *The economy is operating in the full employment range.*—In contrast to the situation of a few years ago, there is no longer any sizable margin of unutilized resources upon which the economy can draw, and skilled labor is scarce. To be sure, the slowdown in the early part of this year caused the average industrial operating rate to fall back somewhat, but unemployment remains below 4 percent. Relatively full utilization of resources places a fairly definite limit on the rate at which national output can safely expand.

It is estimated that at full employment the overall productive capacity of the economy now grows by about 4 percent annually. Over the next year or so, real output could probably grow at a little more than 4 percent, perhaps 4½ percent or even 5 percent, while plant utilization rates are rising. Allowing for a 2½ percent rise in prices—as measured by the so-called GNP deflator—GNP in current prices might safely rise by 7 percent or so in the next year. As a steady diet, this would be a shade too much since price rises of 2½ percent to 3 percent annually are too large. But, if the rise of GNP in current prices were held to 7 percent or so in the next year, we would be on a path leading to a less inflationary environment.

We no longer are in a situation where strong rises in demand will yield sizable gains in output and employment. Instead, if the total of public and private spending were allowed to rise at an excessive rate, the consequences would be sharply higher prices. Therefore, with the economy nearing unsafe speed, we cannot keep a heavy foot on the accelerator. We must throttle back to a safer cruising speed.

2. *Price and cost pressures are readily apparent.*—The upsurge in demand in late 1965 and early 1966, associated with the early impact of the Vietnam buildup, was checked by monetary and fiscal restraint. But, one unwelcome consequence of that burst of spending was the disruption of a previous pattern of cost-price stability. For example, the wholesale price index rose by 3½ percent between mid-1965 and mid-1967 in contrast to a total increase of less than 3 percent during the previous four years. Similarly, the wholesale prices of industrial commodities rose by about 3½ percent between mid-1965 and early 1967 in contrast to a total increase of less than 2 percent during the previous 4½ years. The consumer price index rose by 5½ percent between mid-1965 and mid-1967, only slightly less than its total rise in the previous 4 years.

In delayed reaction to the burst of demand in 1965 and 1966, cost pressures have intensified. By the middle of 1966, labor costs per unit of output in manufacturing had risen about 2¼ percent over mid-1965, but were still below the level of early 1961. But, by the middle of this year, they had risen a further 6½ percent. With strong "cost-push" factors already present in the economy, a renewed burst of demand could start wages and prices on an upward spiral.



3. *Interest rates are already at or near last year's levels.*—Another crucial difference between the present situation and that of several years ago, is the height of interest rates and the degree of credit availability. Let me say that after last year's "credit crunch," I have no desire whatsoever to see a repeat performance—and I don't think anyone else does either. But, wishing will not make it so. If we are determined to avoid a repetition of last year's difficulties, we must avoid undue reliance on monetary policy to achieve restraint.

Last year the combination of strong credit demands and monetary restraint pushed interest rates to peak levels. By late summer and early fall, not only was credit expensive, its availability was severely limited.

Prompt action was necessary last fall to relieve the overall pressure on financial markets and calm the feverish competition for savings. That action was forthcoming. It included temporary suspension of the investment credit, interest-rate ceilings on consumer-type time deposits, and a temporary slowdown on agency financings and sales of participation certificates. The improvement in financial markets was dramatic. Now, a year later, the situation is substantially different.

Savings flows to thrift institutions have been at record levels this year. Mortgage commitments have been rising strongly. The recovery in residential building has carried the seasonally adjusted annual rate of housing starts back to nearly 1.4 million units in contrast to an August 1966 low of about 850 thousand. Commercial bank credit has risen at a 13 percent annual rate in the first 8 months of this year as the Federal Reserve has pursued a course of relative monetary ease.

In short, credit is much more readily available now than it was a year ago. But, there is a disturbing similarity between the two periods. Interest rates, especially long-term rates, are back at very high levels despite a continuing policy of monetary ease since last fall. Basically, this is because private demands for credit have been extremely heavy this year, partly in reaction to last year's squeeze. Also, the private demands for credit are probably reflecting the faster pace of economic activity since late spring.

Net Federal credit demands have been relatively modest although the picture is changing now. Net Federal demands on the private credit markets can be measured by the change in private holdings of Federal credit instruments, including Federal agency securities and participation certificates along with Treasury issues, by excluding the change in holdings of the Government investment accounts and the Federal Reserve. On this basis, Federal credit demands were only about \$3 billion during calendar 1966 in a total credit flow of some \$70 billion. In the fiscal year ending this past June 30, the net contribution of the Federal sector to total credit demands was actually negative, or near neutrality after allowance for an unusually low Treasury cash balance at the end of the fiscal year. But, in the current fiscal year, even with tax and expenditure action, net Federal demands on the credit markets will rise to the \$10 to \$12 billion range. In the absence of tax action, that figure would soar to the \$20 billion range. This would be beyond the capacity of the markets to handle at anything like the current level of interest rates.

Frankly, even current levels of interest rates are higher than we like to see them. And, without tax and expenditure action, there would be only one way for interest rates to go—up from their present high levels. In contrast to the situation of several years ago, interest rates are already high and the financial system is wound up pretty tightly. Liquidity is at a premium. We have to operate cautiously in such an environment. Therefore, we need—and need very badly in my opinion—an extra degree of fiscal restraint.

4. *Too rapid expansion can hurt our trade balance.*—Recent experience also highlights the importance from a balance of payments standpoint of holding the domestic expansion within prudent limits. During the years 1961 through 1964, GNP in current prices rose by an average of about 6 percent per year—more in some years, less in others. During that period, our trade surplus rose by nearly \$2 billion. It was \$4.8 billion in 1960 and \$6.7 billion in 1964, when there were special favorable factors. Not all of the improvement is directly attributable to the relatively moderate rate of domestic expansion. Our exports depend upon the pace of business activity abroad and there are other complicating factors.

In striking contrast, during 1965 and 1966 when GNP in current prices rose at rates between 8 percent and 9 percent, there was an extremely sharp rise in our imports. Even though exports continued to rise, the trade surplus narrowed to \$4.8 billion in 1965 and to \$3.7 billion in 1966. Indeed, by the last quarter of

1966, the trade surplus had shrunk to a \$2.9 billion annual rate. With a slower rate of expansion this year, the trade surplus recovered to a \$4.0 billion rate in the first quarter and improved further to a \$4.5 billion rate in the second quarter.

An overly rapid rate of domestic expansion can hit our trade balance from both sides. As recent experience clearly shows, the rise in imports is abrupt when the economy presses hard against capacity. Too rapid domestic expansion can also undercut our ability to export. In the interest of payments equilibrium, we must keep our exports competitive. There can be little doubt that a sustained upward drift in our costs and prices relative to those abroad would soon begin to affect our competitive position adversely.

5. *We are fighting a costly war.*—Extra expenditures for Vietnam are running at a rate in excess of \$22 billion per year. While those expenditures do not bear as heavily on the economy as defense expenditures did at the time of Korea, their impact most certainly is felt. Without Vietnam, Federal administrative budget expenditures would amount to only some 14 percent of gross national product in fiscal 1968; with Vietnam included, Federal expenditures may rise to 17 percent or a bit more. This would be about the level of 1955 and 1959 and well below the 21 percent reached at the time of Korea. But, it would amount to an appreciable rise over the 14.8 percent ratio in fiscal 1965.

These are the crucial differences in the economic picture at the moment and the picture as it appeared in 1964. Now, what about those perils of an unhealthy and excessive rate of expansion? I would list them as follows:

—We are in grave danger of losing control of a relatively stable price structure.

—Sharply higher prices throw wage-price relations out of kilter and set the stage for a cost-push inflation.

—Cost-push pressures tend to narrow profit margins and encourage efforts to raise prices.

—Sharply higher prices put the nation at a severe disadvantage in our competitive relationships internationally.

—At home, the burden of higher prices falls cruelly on those least able to protect themselves.

—And, of course, a strong resurgence of private demand, unchecked by tax and spending actions, can create some very bad days ahead for the Treasury debt managers and for everyone who borrows money.

If our experience since 1960 is any guide, it would seem that we as individuals, as corporations, and as a nation prosper most when our rate of growth is held within the bounds of our productive capacity. Perhaps in this town of investment advisors you believe that you can protect yourselves against inflation. Perhaps you can protect a small minority of our people for some period of time. But inevitably the well-being of your clients can not be divorced from the well-being of the nation as a whole. Parenthetically I might add that I do not envy those of you who are keeping your clients ahead of the game as "in and outers" in stocks that I can only rarely identify.

In conclusion, I would argue that the risks and perils that confront us are formidable but avoidable. The prudent course for this nation to follow is clearly set forth in the President's recommendations. I can only hope that next year as I join the litany "In Times of Prosperity \* \* \* Good Lord Preserve Us," I will be referring to our moral fibre and not our national economic well-being.

**Exhibit 15.—Remarks by Under Secretary Barr, June 25, 1968, before the Town Hall of California, Los Angeles, California, on potential claims on the Federal budget**

#### The Battle for Resources—Diplomacy versus Domesticity

On April 26, Dr. Otto Eckstein, Professor of Economics at Harvard University, made a statement before the American Statistical Association that intrigued me enormously. Dr. Eckstein was attempting to analyze the potential claims on the Federal budget over the next 2 years under various sets of economic assumptions. With his permission, I will today try to add a political dimension to his remarks.

For years I have bemoaned the demise of "political economy." I have argued that political scientists and economists have suffered from the dichotomy that developed early in this century. So by adding a political dimension to Otto's

remarks, I will be practicing what I have preached, and hopefully will be contributing to an analysis of an issue that can well be the subject of furious debate in this nation in the immediate future.

Now just what did Dr. Eckstein say? He introduced his theme with this statement:

"Recent studies have assumed that the crisis in the Federal budget will come to a quick end once the Vietnam war is over. The war is costing close to \$30 billion. If \$20 billion of budget resources could be released, there should be ample room for substantial increases in social spending, as well as tax reductions for increased private consumption and investment. With a normal Federal revenue growth of over \$10 billion a year, one would hope that the Federal budget would be in much less of a squeeze than today.

"This cheerful prospect could easily dim over the next several years."

He then made these points.

1. It will be extremely difficult to get defense spending down in the near future.

2. Traditional civilian Government programs will cost more as population grows and the demand for services increases.

3. Much of the revenue growth that we can expect in a growing economy must be used to reduce our current budget deficits.

I agree with the conclusions that Dr. Eckstein has reached and I would like to comment briefly on each of the three points.

If the Defense Department is to maintain its current mission in the world—a mission that is defined by our diplomatic objectives—I would seriously doubt that any sizable reduction can be made in the defense budget in the foreseeable future. Our experience in Korea indicates that the cessation of hostilities does not mean that we can pull our troops back home and forget about the area. Our position in Southeast Asia can be even more difficult than the situation we faced in Korea. There is no heavily reinforced 17th parallel behind which we can retire with comparative security.

We have been fighting this war on a very, very lean budget. There is no evidence that we have piled up surplus stocks in ordnance, ammunition, aircraft, or naval vessels. On the contrary, I would estimate that a cessation of hostilities would result in great pressures to rebuild stocks in military supplies and equipment to a more acceptable level. Similar pressures might be expected to increase defense expenditures for research and development and to improve our readiness posture and strategic capability. These kinds of expenditures are already beginning to move up again after being cut back earlier.

One way of looking at the situation is as follows. In fiscal year 1965 our spending for defense and international affairs was running at a rate of about \$54 billion a year. By fiscal 1970 inflation will have added about 15 percent–20 percent to those basic costs, or about \$9½ billion. Thus a 1965 effort would cost about \$63 billion in fiscal 1970. We are currently spending at the rate of roughly \$28 billion a year in Southeast Asia in activities directly related to the Vietnamese engagement. While it is not completely accurate to add this total cost to the \$63 billion base I referred to, it at least gives us the basis of comparison. It indicates that in fiscal 1970 we would be spending about \$91 billion a year if Vietnam expenditures continued at their present level and we maintained the same force readiness, strategic capability, r & d expenditures, and international affairs expenditures that prevailed in 1965. Or, to work around another way, the figures would indicate that the Defense Department this fiscal year is spending, in terms of real resources, 10 percent–15 percent less on all requirements, except Vietnam, than it was spending in 1965—roughly the equivalent of \$46½ billion against a \$49½ billion level prevailing at that time, while expenditures on international affairs and finance are also, in the same terms, down by one-quarter billion dollars to one-half billion dollars.

I can only conclude that if the State Department maintains its current diplomatic objectives and if the Department of Defense defines its mission relative to these objectives as it did in 1965, then there is not much opportunity for substantial budget cutting in this area in the foreseeable future.

The second point that Dr. Eckstein makes is also unquestionably true. The traditional operations of this Government must almost of necessity grow as the country grows. The volume of mail to be delivered grows at the rate of three billion pieces a year; the number of income tax returns to be processed rises at the rate of three million a year; the number of visits to our parks and our national forests increases at the rate of 20 million or more a year. I do not believe that there



is any disagreement that the traditional services of the Government must grow in a growing country. Back in 1961 Mr. Maurice Stans estimated that a rate of growth of \$2½ billion to \$3 billion a year in the Federal budget was probably necessary to keep up with the growth of the country.

Dr. Eckstein pointed out that the normal growth in our revenues which we can expect in a growing economy would be needed in the immediate future to reduce the Federal deficits we have been running. This statement is surely incontrovertible. Demands for capital in this nation and in the world are enormous and I cannot see how we can contemplate orderly capital markets or price stability if the Federal Government is forced to borrow to meet deficits in excess of \$20 billion a year.

Dr. Eckstein uses this line of reasoning to support his argument for a tax increase and rigid controls over military and old-line civilian Government expenditures. In my opinion his analysis points up an even more pervasive issue—the coming struggle over the budget—or as I have put it, diplomacy versus domesticity. Let me say at this point that in the coming struggle I will be an interested bystander. My 10 years of public service will end on January 20. Therefore, as I now attempt to add a political factor to the economic calculus that Dr. Eckstein has described, it can be assumed that I will be reasonably impartial.

I foresee an intense struggle between those advocating diplomatic objectives and those arguing for domestic requirements for the next 4 years. A tax increase will help to make that struggle less acrimonious. Tough-minded expenditure control will help to produce the same result. But I can only conclude that neither will be sufficient to head off a conflict.

As we move from economics into the area of politics, I would like to comment briefly first on the diplomatic arguments. I see no reason to apologize for the diplomatic objectives of the United States for the past 23 years. In fact, I would venture to predict that many of us will look back on these years as a time of shining idealism—our golden years. Under the shield of our defense establishment, the free world has achieved a huge growth in world trade, a free flow of funds between nations, an unparalleled expansion of tourism, and truly remarkable achievements in the development of areas which had known only poverty, ignorance, and disease throughout recorded history. I am not going to throw any rocks today at the Department of State or the Department of Defense.

In his analysis, however, it seems to me that Dr. Eckstein has left out some very potent changes that have occurred in this nation in the past 4 years which lend credence to my contention that a fierce battle for budget resources will be waged. These changes were initiated by the extraordinary man who helped start my public career and whom I have served with affection for almost 5 years—Lyndon Baines Johnson. In 1965 the Congress enacted a landmark bill to provide Federal assistance to elementary and secondary education. In that year it also passed the legislation establishing medicare and medical aid. In those two pieces of legislation the country established enormous potential claims on its revenues, claims that were backed up by a knowledgeable and forceful political clientele. Almost for the first time in the history of the Republic we created a strong political challenge to the allocations of resources for the defense of the nation.

Let me illustrate my point. There are 22 thousand school districts in the United States. Almost without exception every district would spend more if their budgets would allow. I need not remind you of the political muscle that millions of parents, teachers, and school administrators can swing in this nation. The passion for education has characterized our national history. For the first time elementary and secondary education now has a claim on our Federal revenues, and I would estimate that the claimants will be after us with the ferocity of a tiger. These programs are probably seriously under-funded at the moment, and given any letup in Vietnam, the demands will be clamorous and insistent—no matter which political party is in power.

This nation has been one of the last of the great industrial nations to move to a system of health insurance. There is no need for me to elaborate on the costs—present and potential. There is no need for me to dwell on the history of other nations and the response to these demands for medical care. Suffice it to say that here again we have opened the doors of the Federal Treasury to huge demands.

I would estimate that no political party, and no President, can reverse or even slow down appreciably the demands that will come from the country in the areas of education and health. While education and health will, in my opinion,



prove to be the most politically potent claims on our resources in the years immediately ahead, let me list a few other claims with enormous political muscle.

The problems of our cities have unquestionably grown to almost intolerable proportions—pollution, transportation, adequate housing—and the whole gamut of problems associated with the ghettos. The costs associated with these projects are staggering. In one area alone—housing—to move from the current level of about 1,400,000 starts a year to a 2,600,000 rate which is widely advocated at the moment, would place at least an additional \$20 billion strain on our credit markets annually, and unquestionably an additional strain on our Federal budgetary resources. The other issues which I have mentioned—pollution, urban transportation, and the problems of the ghetto—fall roughly into the same category as housing. Financing these programs will be a great additional burden on our capital markets and on State and local government tax revenues. In addition, unless I am sadly mistaken, they are going to produce a sizable claim on our Federal tax revenues.

The programs I have just mentioned will not lack in political appeal and can also prove to be an effective challenge to the claims on our resources generated by Defense and State. None of us relishes the prospect of a China armed with ballistic missiles aimed at this city without an effective deterrent—even if the cost is huge. But, on the other hand, none of us relishes the idea of resting securely behind an antiballistic missile system if we are slowly choking to death in a polluted atmosphere. None of us looks forward to a world in which adventurers can prey with some degree of impunity on weaker nations. But I think that most of us would like to get to work without spending our days in endless traffic jams. The possibility of Communist probing and troublemaking in Europe resulting from a draw down of our NATO forces is not pleasant to contemplate but, on the other hand, the civil disturbances we have had in the past year in our cities are very real and very close indeed.

As if the battle for the allocation of domestic resources were not serious enough, our diplomacy faces a severe challenge in its claims on the foreign exchange which this nation can earn. There is not sufficient time today to deal with the history of the U.S. balance of payments for the past 17 years. In addition, I am certain that the news stories which have run since last November 18—the date of the British devaluation—have brought home to all of you the severity of the problem that the nation faces.

Over the past 17 years three factors have enabled this nation to pursue its diplomatic and military objectives with certain immunity from balance of payments consequences. From about 1950 on we had enormous reserves which we were perfectly willing to run down—at least until about 1960. We had a very large trade surplus. And finally, there was a willingness—even an eagerness—in the first part of the period for other nations to hold additional amounts of dollars in their reserves. The next President of the United States will probably not have these three factors working for him.

He will probably be forced to conserve our reserves and fight to maintain or improve our trade balance as well as face a world increasingly reluctant to hold additional dollars.

Today the foreign exchange cost of keeping our troops deployed around the world is running in excess of \$3 billion a year. It has become increasingly evident that our diplomatic aims must compete with the thousands of American travelers who use foreign exchange, not dollars, in their wanderings, with American corporations that need foreign exchange for foreign investment programs and American banks and other lending institutions anxious to hold on to their share of the international markets. I can ruefully tell you from personal experience that the American traveler is a formidable political opponent—rising up in outrage when anyone makes a modest attempt to hold down his spending outside the United States. While not so numerous and possibly not so vocal, I can assure you that the restraints placed on foreign investment and foreign lending are distasteful to the American business and financial community. Thus I can only conclude that diplomacy is facing three powerful antagonists who will try to get their share of the foreign exchange earnings of this nation.

In 1960, as he was preparing to leave office, President Eisenhower had this to say about the military-industrial complex and its potential threat to the United States.

"In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial

complex. The potential for the disastrous rise of misplaced power exists and will persist."

At the time President Eisenhower made that statement, I was a freshman Congressman, but it made eminently good sense to me. Even a freshman Congressman could see that there was no effective challenge to defense and diplomacy in the allocation of our national resources. Agriculture and public works at that period of time constituted a minor challenge but their potential for expansion was severely limited. Today I would guess that President Eisenhower takes some comfort in the fact that the military-industrial complex does not go unchallenged in this nation.

If one accepts my thesis that a battle for the allocation of resources is shaping up in this nation, then it is logical to ask, "Are our institutions of Government sufficiently viable to assess the hard fiscal choices that lie ahead and to arrive at rational conclusions?"

There has been abroad in the land in recent months a tendency towards despair. Some have argued that there is no way to reverse or even to blunt the power of the military-industrial complex. Others have argued that a polarization of our society—between the affluent and the indigent and between white and black—is inevitable. Still others have argued that the plight of our cities is hopeless—that we are slowly sinking beneath traffic jams, pollution, and violence.

When one analyzes many of the causes for despair, it is amazing to discover how frequently the despair occurs because of a conviction that the necessary resources will not be forthcoming. Educators are convinced that a truly massive infusion of funds can correct the dreadful imbalance between schools in the ghettos and schools in suburbia. Sociologists are convinced that some plan such as the negative income tax can halt the flood of disadvantaged Negroes from the south to the northern cities—at a cost of from \$11 billion up. City planners are convinced that the scandalous housing of the ghettos is needless—if we will pay the cost. Transportation experts say that traffic jams can be eliminated—just give them the resources for adequate mass transit systems. Police officers contend that violence can be contained and order restored—if they have the funds for an adequate force. But nearly without exception all these elements of society despair of convincing the country that these demands should be met with adequately funded programs.

If there is any justification for all this despair, then perhaps there is some logical reason for the revolutionary desire to tear down our institutions, to flout our Government and its laws, and in the final analysis to resort to violence. I personally see no reason to despair.

In the past 90 days the nation has faced and acted on two issues that were in my opinion almost the ultimate test of representative government—the Fair Housing Act and the Tax Bill. Both issues were stark—reasonable men could not dispute the validity of the arguments. But both issues required the absolute maximum in political courage. A nation that has the sheer guts to face down these two explosive issues at this moment in time would seem to be prepared to take on the dreadful array of issues which still confront us.

Mr. Sam Rayburn used to say, "It takes a very smart man working very hard to hurt this great country very much." This is a comforting philosophy, but as I looked back over 10 years of wrestling with issues, I became increasingly concerned that in the struggle the essential fabric of the nation was being torn—perhaps we were hurting the country. I was haunted by the fears expressed by many in 1964 that tax reduction might be good for the country at that time, but that we would not have the courage to raise taxes if we got into trouble.

However, a nation that can say to the black man, "Your dollar is as good as the white man's," and a nation that can discipline itself financially, certainly has the moral fibre, the intelligence, and the institutions to take on the impending "Battle for Resources" and come up with rational answers.

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**Exhibit 16.—Other Treasury testimony published in hearings before congressional committees, July 1, 1967–June 30, 1968**

**Secretary Fowler**

Statement on "The Budget for 1969," published in hearings before the Committee on Appropriations:

1. House of Representatives, 90th Congress, 2d session, February 8, 1968, pages 3–39.
2. Senate, 90th Congress, 2d session, February 14, 1968, pages 1–29.

### **Under Secretary Barr**

Statement on H.R. 11601, the "Consumer Credit Protection Act," published in hearings before the Subcommittee on Consumer Affairs of the Committee on Banking and Currency, House of Representatives, 90th Congress, 1st session, August 7, 1967, pages 74-89.

Statement in support of proposed amendments to improve guaranteed student loan program enacted in the Higher Education Act of 1965, published in hearings before the Special Subcommittee on Education of the Committee on Education and Labor, House of Representatives, 90th Congress, 1st session, August 16, 1967, pages 398-404.

Statement on H.R. 16092, a bill to extend the authority for more flexible regulation of maximum rates of interest or dividends payable on savings accounts, published in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 2d session, June 27, 1968, pages 82-84.

### **Under Secretary for Monetary Affairs Deming**

Statement on S. 3133, a bill to extend for 2 years the flexible authority under which the appropriate financial agencies can regulate maximum rates of interest or dividends payable on savings accounts, published in hearings before the Subcommittee on Financial Institutions of the Committee on Banking and Currency, Senate, 90th Congress, 2d session, April 3, 1968, pages 10-13.

### **Assistant Secretary Wallace**

Statement on H.R. 12754, a bill to extend for 2 years the authority for more flexible regulation of maximum rates of interest or dividends, published in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 1st session, September 14, 1967, pages 5-7.

### **Deputy Under Secretary for Monetary Affairs Sternlight**

Statement on the means of financing certain of the programs involved in the proposed housing legislation for 1967, published in hearings before the Subcommittee on Housing and Urban Affairs of the Committee on Banking and Currency, Senate, 90th Congress, 1st session, July 18, 1967, pages 137-142.

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## **Public Debt and Financial Management**

**Exhibit 17.—Remarks by Under Secretary for Monetary Affairs Deming, October 19, 1967, at the Mid-Continent East Regional Meeting of the American Association of Collegiate Schools of Business, Minneapolis, Minn., on fiscal and financial policy**

It is always a pleasure to return to Minneapolis—and the opportunity to meet and exchange ideas with this distinguished group makes the occasion still more satisfying.

One of the great strengths of the American system, I believe, is the interchange of ideas and people between business and Government, Government and the academic community, and business and academic life. If not an eternal triangle, it is, at least, a long-lasting and fruitful one—with solid ties and tensions in each of those interconnections. Each of the three components benefits from the relations with the other two.

This productive partnership shows up particularly in the development of new frontiers of economic knowledge and institutions. A striking example of this, which I have seen at first hand, is the effort of the past several years to create new international liquidity. There is not time today to discuss this subject at length or in substantive fashion. I want to spend most of my time on domestic matters. But a brief historical and procedural comment is in order.

Much of the original thinking in this area came through the interchange of ideas and people in Government and the academic community. A succession of ideas was fostered in Government circles here and abroad. In that process, the business and financial world was drawn in, too, at first with some healthy skepticism and then with increasing conviction that this was an appropriate, desirable and necessary path to follow.

The international liquidity exercise has gone through several phases of study and negotiation with most of the frontline work being done by representatives of Treasuries and Central Banks. Government positions, of course, have reflected widespread intra-Government study and consultation. In the United



States, both the executive and legislative branches contributed to this work. And, in the United States, an important role has been played by the Advisory Committee on International Monetary Arrangements<sup>1</sup>—a group that illustrates my point very well.

The Committee is composed of nine men from business, financial, and academic life—many of whom have served in important Government positions. From the financial and business world are its Chairman—Douglas Dillon (former Secretary of the Treasury), Robert Roosa of Brown Brothers Harriman (former Under Secretary of the Treasury), Andre Meyer of Lazard Freres, David Rockefeller of The Chase Bank, and Frazar Wilde of the Connecticut General Life Insurance Company and the Committee for Economic Development. From the academic community are Walter Heller of Minnesota (former Chairman of the Council of Economic Advisers), and Kermit Gordon of Brookings (former Director of the Bureau of the Budget). Charles Kindleberger of MIT served as a member for a year; and Francis Bator of Harvard, who has just returned to academic life after 4 years in Government—most recently as a White House Adviser—has become a member. Edward Bernstein, who has been in academic life, the Treasury and the IMF and is now a consulting economist, completes the Committee.

This Committee is a working group which has met some 25 times in all-day working sessions with the Secretary of the Treasury and other Government officials concerned with the international liquidity exercise. It has given advice and counsel on both points of substance and negotiating strategy.

The steps taken, and the agreements reached in the past two months—in London among the 10 major nations in world trade and finance, and in Rio by all 106 members of the International Monetary Fund—are important, historic moves in the process of creating new international liquidity. But the process does not stop with these steps—nor does the interchange cease among business, Government, and the academic community as we proceed to flesh out the framework now agreed upon.

Let me switch now to another area of extremely valuable interchange among these same three groups—and one that is also very timely at this moment. I refer now to the area of fiscal policy—Government spending and lending, and taxing and borrowing—to serve broad national purposes. Here, I want to comment at some length and substance.

The role of the academic community in educating Government and business to the merits of flexible fiscal policy needs no elaboration here. The success of the 1964 tax reduction was most impressive, not only in stimulating a robust and healthy economic expansion—now in its 80th month—but also in bringing revenues from a prosperous economy up to a level that produced a surplus in the national income account budget in calendar years 1965 and 1966.

But there is another chapter in the book of “new economics” which sets out circumstances in which tax increases rather than cuts are the right medicine, and when tax increases are the appropriate way to bring in more revenue—even though under other conditions a reduction in tax rates had the effect of augmenting revenues along with stimulating business activity.

The difference, of course, lies in taking account of what the rest of the economy is doing. The Federal sector does not operate in a vacuum, but in an economy which may be booming, sagging, or operating somewhere in between—perhaps en route from one of these stages to another. In the early 1960's, the economy was not exactly sagging, but it was also far from booming. Unemployment hovered around 5½ percent—better than the 7 percent recession level touched in 1961, but still distant from the desired 4 percent level and not clearly headed either up or down. In this case, an economic stimulus was appropriate, and it could be provided by an expansionary fiscal policy that would operate alongside an expansionary monetary policy—without requiring monetary policy to provide so much of the push that it produced distorted financial flows within this country and capital outflows from this country.

Compare that set of conditions with our current economic position. Unemployment has held steady at around 4 percent of the labor force. Consumer and Government demands have been rising briskly. An inventory adjustment apparently has been weathered without producing general weakening in the economy, and renewed inventory demand is now ready to take its place as a source of added aggregate demand. In the meantime, there are strong credit market demands from virtually all types of borrowers.

<sup>1</sup> See exhibit 70.



Granted, the economy is not, at this moment, in the grip of clearly excessive demand. There have been times when unemployment was lower, capacity utilization higher, and the pull of excess demand more clearly evident. Those were times such as in the Korean War period, when demand inflation was gaining an upper hand and clearly needed strong restraint. But, just as clearly, that is the kind of economic structure we may well be heading into in a matter of months—given a continuation of present trends in consumer and government demand.

That we have not felt the hot breath of demand inflation more strongly in recent months is a result of an inventory adjustment of considerable proportions—which, had it arrived under different circumstances, without the offset of strongly rising final demands, would have caused a general softening in economic activity and called for consciously stimulative fiscal policy. With inventories now about in line, and the adjustment pretty well completed, the fiscal stimulus that had been appropriate earlier is less and less desirable with each passing month—and, in fact, it is now becoming positively harmful.

The role of inventories is most clearly seen in looking behind the quarterly changes in the annual rate of gross national product—to see how much was due to inventory building and how much to final demands from Government, consumers, and business. In the first quarter of this year, the annual rate of GNP was up a scant \$4.2 billion: and, in fact, not up at all in real terms, after correcting for price changes. But final demands in that quarter were up more than \$15 billion while the rate of inventory accumulation fell about \$11 billion. A \$15 billion quarterly gain, or about 2 percent, is about as much as we should want to see; and, in fact, it's a bit faster than we can tolerate for long without getting too much price pressure. Of course, in the first quarter of this year, we did not get that excessive pressure because the big rise in final demand was offset by a large drop in production for inventories.

The picture began to change a little in the second quarter of this year. Final demands were up another \$15 billion, and the rate of inventory accumulation declined again, but not as much as in the first quarter so that total GNP increased by nearly \$9 billion. That was enough to provide a little real growth but still not a satisfactory total increase, so it was appropriate that a fiscal stimulus continue to be provided through a budget deficit on the national income accounting basis.

For the third quarter, it is estimated that final demand continued to push up—this time by about \$14 billion—while the rate of inventory building increased slightly from the second quarter's pace. In real terms, GNP increased at a slightly better than 4 percent annual rate. With that performance, the continuation of substantial fiscal stimulus is already becoming questionable; and, when one looks ahead, the continuation of that stimulus becomes positively objectionable.

In the current quarter, statistics may be distorted by the automobile strike—but the trend is clear in pointing to a steadily rising head of steam. Every major work stoppage in recent years has had the effect, once it is settled, of imparting further stimulus to the economy as it seeks to make up for lost production. I would not argue that the current auto strike is an additional reason for going ahead with the President's tax proposals—but we should not let ourselves be persuaded that the strike is a reason for delaying that needed fiscal action.

Participants in the credit markets seem to have had few doubts about the basic trend of economic activity through the past year of irregular growth. Particularly outstanding has been the heavy demand for capital by corporations—reaching record proportions, even though capital needs for financing inventories were lessening and needs to finance current fixed investment outlays held about steady. How does one account for the fact that corporations borrowed \$17.9 billion in the capital markets through the first nine months of this year—an amount somewhat exceeding the total of such borrowing during all of 1966, and 27 percent ahead of the amount borrowed in the first 9 months of that year? And 1966 was not a slack year—it was the record year to date. Underlying this enormous demand was a combination of conviction and fear—conviction that liquidity positions run down during 1966 should be restored and dependence on short-term borrowing from banks reduced, and fear that a failure to tie up some available funds when they are available might mean an inability to get funds at all when they really are needed later on.

A special source of concern for the corporate treasurer has been the possibility of an oversized Federal Government deficit. The recollection of tight

money markets in the summer of 1966 is still quite vivid. Yet, tight as the markets were at that time, the Federal sector's demands on the credit markets were quite modest through that period. The contemplation of a period of heavy private sector credit demands augmented by an overgrown Federal deficit raises the possibility—or spectre, if you will—of an even tighter set of credit conditions in the future. Corporate borrowers have realized this and sought to make preparation for it.

Credit demands from State and local governments have not been laggard, either. These governments, in the first 9 months of the year, have borrowed \$10.7 billion, or 25 percent more than in the comparable months of 1966. Part of this reflected borrowings postponed from the very tight money period of a year ago, which was marked not only by high interest rates but also an unavailability of funds to some prospective borrowers. Part of it, too, simply reflects greater current needs by these governmental units, to provide increases in things and services more quickly than current tax revenues rise. Some of it, also, is due to the rising volume of tax-exempt industrial revenue bonds—borrowing by a local government unit to build industrial facilities which are then leased to corporations. This, incidentally, should be a source of growing concern to the State and local governments themselves, as it is making their own borrowings for schools, roads, and other traditional State and local needs significantly more costly.

Looking at the Federal sector's credit demands for 1967 thus far would tend to give a somewhat distorted picture because of the very heavy debt repayments that occurred from January to June 1967. That was partly seasonal, but the seasonal factor was accentuated because of accelerated corporate tax payments, unusually heavy repayments by savings and loan associations to the Federal Home Loan Banks, and an unusual absence of the seasonal buildup in the Treasury's cash balance that typically occurs in the first half of the calendar year.

Because of these factors, net Federal demands on the private credit markets from January to June 1967, as measured by the increase in outstanding Treasury issues, agency issues, and participation certificates, less the increase in holdings of these obligations by the Government Investment Accounts and the Federal Reserve, was actually negative by \$11 billion. That is, the Federal sector was supplying that amount of credit to the rest of the economy, rather than making a net demand on it. And so great was the net paydown in that half-year period, that even taking the whole of fiscal year 1967, to wash out purely seasonal forces, there was a net paydown by the Federal sector of some \$6 billion. Even after adjusting for the \$5 billion decline over the year in the Treasury's cash balance, the result still stands for that period—the year ended June 30, 1967—that the Federal sector, in effect, made no net credit demands on the private market.

The picture in this current fiscal year stands in some considerable contrast to last year, however, for there will be a significant net Federal credit demand, and it is already being exerted on the markets. How big that net demand will be depends on several factors, prominently including the President's tax proposals which are now before the Congress.

Essentially, it comes down to a question of whether the net Federal credit demand, with the benefit of a tax increase and firm restraint on expenditures, will be large but still of manageable proportions, or whether it will assume outsized proportions with hard-to-determine consequences for the credit market at large, for interest rates, and for the general economy.

We have estimated that with the President's tax program, as recommended on August 3, and with Federal spending held to the lower end of the band that would produce an administrative budget deficit in the \$14 billion—\$18 billion range, net Federal credit demands on the financial markets—that is, including Treasury issues, agency issues, and participation certificates—in the sense defined above, would come out somewhere in a \$10 billion—\$12 billion range in the current fiscal year. That would still be a sizable demand, coming after a year of no net Federal credit demand in that sense—but it could probably be managed within the context of financial markets that handle flows in the range of some \$70 billion or so a year, provided there was a good-sized increase in bank credit.

Without prompt tax action and expenditure restraint, however, that net credit demand from the Federal sector could bulge to \$20 billion or more, and there would be a real question about whether that sort of demand would be "manageable," in the sense of preserving reasonably orderly markets. One

cannot, for example, simply expect a sufficient expansion in bank credit to accommodate whatever demands emerged from the Federal sector—any more than this sort of accommodation could be expected on behalf of any other borrowing sector in the economy. The monetary authorities would want to appraise the total demands carefully and accommodate, only with increasing reluctance, the larger volume of aggregate demands.

The process through which the market would allocate a limited supply of credit among an excess of would-be borrowers can be described, ahead of time, only in qualitative terms and generalities. The particulars might work out differently under slight variations in circumstances. In general, though, it may be predicted that the Federal Government's credit needs would be met, one way or another, as would also the credit needs of larger business firms. The cost might be high—even in comparison to the high rates prevailing today—but the supply probably would be there because some other borrowers would be "pushed off the end of the bench" and unable to find money, except perhaps at rates that were considered exorbitantly and prohibitively high.

Consumers might fare unevenly in the scramble for available credit. Funds for installment purchases, and other short-term credit, would probably be available—but money for home mortgages would quite likely be a major victim. As, in fact, it was the major victim in the tight money period of 1966 and in similar past episodes. Business might also fare unevenly, with large firms, as noted, getting their needs filled, and small ones having to make do with less—drawing on every last ounce of spare liquidity in the system, leaning on trade credit, and cutting corners wherever possible in cash management. State and local governments would also feel the pinch, especially if bank credit expansion potential was under some restraint. In the summer months of 1966, this was one of the areas where we seemed closest to the stark possibility of non-functioning credit markets in which funds were unavailable at virtually any price.

This is not a prediction, but an outline of possibilities that would conceivably develop in the absence of responsible fiscal policy action on both taxes and expenditure restraint. We had a taste of this in 1966, and that did not particularly whet our appetite for more of the same.

As to where we are now, at this point in the fiscal year, in accomplishing our needed borrowing, we have done a good bit of the job already—but much of this represents the seasonal portion of the job. Without timely tax action, some additional borrowing will remain to be done at the time of the year when we are normally making substantial seasonal repayments.

With respect to cash needs for the July–December period, we are now in the home stretch. In late July, we estimated that Treasury needs for market borrowing in the July–December period would be about \$15 billion. That assumed timely action to bring in some revenues from a tax increase before yearend; it assumed participation sales of about \$2 billion in this 6-month period, so that the total financing need, in that sense, was \$17 billion; and it assumed that spending would be near the lower end of the range outlined in the President's tax message of August 3.

If the spending and tax assumptions do not stand up, that total need of about \$17 billion for this 6-month period could turn out to be higher—perhaps \$1 billion to \$2 billion more. But, as noted, the major change could be reflected in borrowings over the following six months. Thus far, we have already either borrowed, or announced the specific plan to borrow, close to \$14 billion in Treasury securities, including \$8.5 billion in tax anticipation bills, nearly \$3 billion in regular weekly or monthly bills, and \$2½ billion in coupon-bearing securities. We have not yet sold participation certificates in Federal agency loan portfolios in this fiscal year, but we still expect to do some in the current half-year, and, thus, avoid bunching up too great a volume of these sales in the January–June half of the fiscal year.

It is fair to ask, in view of the many comments made on the need for a tax rise to hold down Treasury borrowing and avoid excessive monetary strains, "How is it that the Treasury has been able to borrow as much as it has without greater disturbance to the market?" The answer, I think, is twofold. First, there has been a large expansion in bank credit that has greatly facilitated the amount of borrowing we have had to do thus far. From January through September 1967, seasonally adjusted commercial bank credit increased \$29 billion, and bank holdings of Treasury securities increased by \$8 billion. Second, the receptivity of the market has been conditioned by an expectation that responsible fiscal action



will be forthcoming—forthcoming in time to make a considerable difference in borrowing needs during the months ahead.

Even with these expectations, though, interest rates are now high. Long-term rates on Treasury and corporate securities are above the very high levels reached in August and September 1966—mainly pushed aloft by the extremely heavy pace of corporate borrowing earlier this year. Long-term, tax-exempt issues have also risen in rate during recent months; and, in just the last few days, these yields have pushed above last year's peaks to the highest levels since the early 1930's. Commercial banks have continued to invest in tax-exempt issues; but they have tended recently to shy away from longer term issues.

Mortgage rates, typically sluggish, did not begin to decline until several months after more sensitive rates turned down a year ago. But mortgage rates, too, have been rising steadily in recent months. They remain below the late 1966 highs, in part because of the continuing good inflow of funds to the traditional mortgage lenders—notably, the thrift institutions. Those flows are vulnerable, however, if rates on short-term marketable debt instruments rise to levels that begin to attract funds that might have gone into the savings institutions, or that succeed in pulling funds out of the thrift institutions, as occurred last year.

The big difference between interest rates now and a year ago is in the short-term area. Even though these short rates have risen since last spring, they are still well under the levels of a year ago—especially in the maturities of one year or less. Rates on somewhat longer maturities—those of a few years, say—are not so very far from the rates of a year ago, however, and this is an area of some concern with respect to competition for funds going to the thrift institutions. When rates available on Treasury and Federal agency securities push significantly above the rates offered on various types of savings accounts, the possibility of “disintermediation” or divergence of funds from these thrift accounts, and, hence, from the mortgage market, must be reckoned with.

Let me turn now to a little different area—or, rather, a different focus. Instead of the matter of current tax policy and its possible effects on the economy and the credit markets, I want to consider certain points relating to credit programs that are carried out, guided or encouraged by the Federal Government. In referring to this as a change of focus, rather than a wholly new topic, I have in mind that both Federal fiscal policy (taxing and spending) and Federal credit policy (lending, or loan guarantees and borrowing) are concerned with the use of resources, the degree and kind of Governmental influence over that use, and the method or methods of financing. This is an area of inquiry and endeavor that is admirably suited to injections of new ideas and interpretations from the academic community, or wherever else these ideas might be generated. It is, indeed, a financial frontier, in need of exploration and development.

The subject is scarcely new, but some of the developments and applications are new—and we continually find, in returning to this area, that there are many facets remaining to be analyzed and organized. The first broad look at this area in recent years was taken by the privately sponsored Commission on Money and Credit, which produced its Report in 1961. One of the members of that distinguished Commission was our present Secretary of the Treasury, Henry Fowler.

This Commission's study was followed by a Federal Government study by a Committee on Federal Credit Programs, chaired by then Secretary of the Treasury, Douglas Dillon. The Committee reported on its study in 1963. A major study of Federal credit programs was also sponsored by the House Banking and Currency Committee, and published in 1964. More recently, just about a year ago, the Treasury made a study on certain aspects of Federal credit programs,<sup>1</sup> as provided in the Participation Sales Act of 1966. The particular focus of that study was an evaluation of the advantages and disadvantages of direct Federal loan programs, as compared with guaranteed or insured loans.

One may well ask whether, with all those studies of the past several years, any questions could possibly remain unanswered. The answer is assuredly in the affirmative. That this was so has shown up clearly in still another related study—that of the Budget Concepts Commission, which has wrestled at some length with the question of how to treat loans, loan repayments, and loan participations in the Federal budget. The Commission said this was one of the most difficult questions it faced. This has a significance that goes well beyond the mere accounting technique—for a different budgetary treatment may tend to encourage or discourage particular types of loans and particular methods of financing them. There can be significant differences, also, in the way that subsidies are accounted

<sup>1</sup> See 1967 annual report, pages 229–47.



for under various lending programs—whether they are to be buried as deeply as possible, or exposed with explicit disclosure and, perhaps, with a need for specific congressional appropriations to cover a subsidy element.

Other things equal, most of us would have a predilection for keeping credit programs a part of the private sector as far as possible—bringing in the Federal influence only where needed to fill gaps that the private sector does not cover adequately and that social policy demands be filled. But the United States is a big economy with many credit needs, and there is no reason to believe that the place of Federal credit programs, in the aggregate, will be diminished—more probably it will grow.

For example, one area of national effort that clearly needs greater attention is that of urban redevelopment—rebuilding the living quarters and employment opportunities in our central cities, avoiding economic and racial concentrations that become breeding grounds for progressive deterioration, and permitting our society to be enriched by the full potential of its human resources. This cannot be a task for Government alone, and certainly not for the Federal Government alone. Much of the drive, much of the resources, and much of managerial talent must come from the private sector. But, in partnership with various levels of Government, through constructive and imaginative credit-support programs among other aspects, there is a real potential for worthwhile achievement in this area. This cannot mean, in the present context, large commitments of additional Federal funds from an already overstrained Federal budget. Nor should it mean searching for budgetary accounting devices so that Federal expenditures can be hidden away. But there is room, and need, for Government stimulus and support for programs that have up to now been insufficiently attractive to draw forth adequate private effort.

This brings me back to two points about Federal credit programs—their financing and the kinds of control or guidance that should apply to them. Should the funds used for loan disbursements be recouped by selling off the loans, or by selling participations in the loans? Should there be direct access to the Treasury by the Federal lending agencies so that their financing comes in the form of direct Treasury issues? Should there be more consolidation of the borrowing—not the lending—functions of the Federal agencies and have financing done with issues of a combined institution designed for this purpose? And what kind of control or guidance should be exercised by the Federal Government? A form of “debt limit” that puts a ceiling on overall loan volume outstanding or on particular kinds—or limits on new loan volume in a particular period—or merely the setting of standards and, perhaps, a regulation of interest rate ceilings on such loans?

At the extreme, one might say that the Federal Government's role should stop with the mere provision of a guarantee or partial guarantee of a loan that remains in the private sector. Then, the volume of such loans can be regulated by market forces, just as would any privately arranged loans. But if the Federal Government's aegis is there, it is hard to say that no limit or restraining force should be placed on the underlying credits. For, otherwise, there is a Federal Government involvement—and potential for loss—in a wholly open-ended volume of credit, which might or might not promote expansion along lines consistent with overall economic objectives. The balancing of prudent public responsibility, with as full rein as possible to private initiative, is a neat trick indeed—but one that is well worth the prize, if it can be achieved.

I think it obvious from these few comments that, despite the study and work devoted to the broad question of Federal credit programs, there is much more work to be done. Here is an area—in applied finance—where the business schools might well make a contribution. I commend it to you.

Finally, turning back again to our more immediate problems of economic and financial management, the number one fact is the clear and present need for a responsible Federal fiscal policy—a moderate tax increase, as proposed by the President, and a firm restraint on spending. This is a prerequisite to the successful resolution of deeper seated economic and social problems, for without a reasonably balanced general economic condition there is slim prospect of being able to employ resources as needed to meet the problems we can all identify around us. We need imaginative financing and new techniques to help mobilize private capital and initiative effectively. But, even with the most ingenious techniques, it is hard to see how the economy and the financial markets could function properly with an outsized Federal budget deficit that provided excessive spending stimulus and excess credit-market drag.

**Exhibit 18.—Remarks by Under Secretary for Monetary Affairs Deming, February 27, 1968, at the Greater Los Angeles Metropolitan Area 1968 Industrial Payroll Savings Campaign Meeting, Los Angeles, California, on fiscal and financial policies**

I am pleased to play a part in this occasion, which looks ahead to another period of great achievement for our Savings Bonds Program—and which sets its sights on greater payroll savings accomplishments in 1968.

During the past year—largely due to the efforts of your fellow Californian, Chairman Dan Haughton of the 1967 Industrial Payroll Savings Committee—your nationwide accomplishment surpassed the announced goal. More than 2½ million employees were signed up.

Of those new 1967 bond savers: 2,410,000 are from industry; 388,539 are from the civilian rolls of Government, signed up in the Federal employees' campaign headed by Postmaster General O'Brien.

Now we are well into a new campaign year. Our 1968 program is fortunate to enjoy the leadership of Bill Gwinn—the 1968 National Chairman of the Payroll Savings Committee.

Total sales of savings bonds and freedom shares, during 1967, came to nearly \$5 billion—a rise of 2 percent over the previous year, and our best year in the past eleven. Gross redemptions, including interest, were down by one percent over the preceding year.

The net result—the point that means most to us, as far as financing our deficit and adding to the savings of individuals are concerned—was that the volume of savings bonds outstanding increased by over \$1.1 billion during 1967, passing the \$51 billion mark in August and closing the year at nearly \$52 billion.

I believe that those good results are a tribute to the payroll savings promotion that volunteer leaders like yourselves stimulate so effectively. I believe that they are also a tribute to the nationwide effort that has brought about the telling of the savings bonds story in thousands of plants and places of business; in union meetings and over the counters of banks; in newspapers and magazines; in radio and TV broadcasts; and in motion picture theatres.

Since the inception of the Savings Bonds Program, in 1941, it has enjoyed a remarkable blending of professional and volunteer effort and service. This is nowhere better illustrated than by the presence and by the performance of the members of this audience.

#### FISCAL AND FINANCIAL BALANCE

The Savings Bonds Program is an important element in our goal of fiscal and financial balance. The \$52 billion of savings bonds and freedom shares outstanding—held by tens of millions of Americans—represents 24 percent of the publicly held portion of our national debt. We need the Savings Bonds Program to help finance the deficit. We need even more to reduce the deficit that needs to be financed.

Yesterday, at a similar meeting in San Francisco, I spoke of the need to bring our international payments position into sustainable equilibrium—to eliminate or sharply reduce our balance of payments deficit. Today, I want to speak of the vital need to reduce our Federal budget deficit. We must move strongly on both points if we are to achieve sustainable economic growth at home and expand our trade and financial relationships with the rest of the world.

#### Fiscal stimulus and the economic outlook

Let me begin by noting the relationship of the Federal budget to general business activity. There is wide agreement today that the budget should be used as an effective stabilizing force in the economy. For stabilization purposes, the budget should move in the direction of surplus when employment is high, demand is growing rapidly, and inflation threatens. When business is sluggish, a budget moving in the other direction, with the Government spending more than it takes in, tends to provide needed support to private demand and may prevent a recession. During most of the current expansion, the Federal budgetary position has, in fact, been a stabilizing force.

In talking about the Federal budget today, I shall use two different measurements of it: one, the national income accounts budget; the other, the new unified budget—used for the first time in the President's budget message this January. The first provides the better picture of the economic impact of the Government's fiscal program; the second, a better picture of the Government's financial needs—the amount of the deficit that needs financing.

Over time, the NIA budget tracks the changing course of the Government's fiscal impact—which both influences, and is influenced by, the pace of private spending and taxable income. On the expenditure side, this budget includes Federal Government purchases of goods and services, and other Federal expenditures such as welfare payments and grants-in-aid to State and local governments. In this respect, it closely parallels the expenditure account in the new unified budget.

At mid-1965, the NIA budget was running a moderate deficit—about \$3 billion at an annual rate. As the economy expanded rapidly, the budget moved into balance by the end of 1965. Special fiscal measures taken early in 1966, and incorporated in the Tax Adjustment Act of 1966, reinforced an already scheduled \$6 billion rise in payroll taxes for social insurance. Thus, despite a large rise in defense spending, the NIA budget swung into surplus at better than a \$3 billion annual rate by mid-1966 and helped to restrain the economy. Additional restraint was needed, however, and monetary policy supplied it. In retrospect, the total of fiscal-monetary restraint was about right; but, also in retrospect, the share carried by monetary policy was larger than it should have been.

The NIA budget moved to a position of near neutrality in the third quarter of 1966. Special measures were taken in the early fall to relieve the pressure in financial markets and to reduce inflationary pressures. By the end of 1966, with an inventory adjustment in process, the NIA budget was appropriately moving in the direction of fiscal stimulus. In the first half of 1967, the effects of a massive inventory adjustment were cushioned by a Federal deficit on national income accounts of more than \$13 billion at an annual rate. In combination with monetary ease, the added degree of fiscal support kept the inventory adjustment from cumulating into anything worse.

I believe it fair to say that, from the middle of 1965 to about the middle of last year, the national income accounts budget was closely geared to the state of the economy. In varying degrees, this reflected both the automatic stabilizers that are built into our fiscal system, and discretionary actions on both the tax and expenditure side. I do not contend that the discretionary fiscal actions were always perfectly timed, or precisely regulated. Those critics who are blessed with 20/20 hindsight have no difficulty in pointing to cases where a little more or less, a little sooner or later, would have been better. But, if the recent fiscal record falls short of perfection, the budget did, in general, exert a stabilizing influence on the economy.

Since mid-1967, however, the budget position has threatened to become a destabilizing influence on the economy and credit markets. In January 1967, the Administration recommended a tax increase to be effective at mid-1967; it has been pressing vigorously for it since last August. In the absence of action on the proposed income tax surcharge, the NIA budget is still in heavy deficit at a time when employment is high and private demand is rising. The fiscal stimulus which was needed in the first half of last year was definitely not needed in the second half, and is even less needed now.

Prompt action on the tax increase proposals is needed. Large budget deficits in periods of prosperity and rising prices are not called for by either the "new" or the "old" economies. With the economy expected to move ahead very rapidly this year, a measure of fiscal restraint is clearly required.

With the President's tax program, the NIA budget deficit will fall to an estimated \$5 billion average for the calendar year 1968 and remove much of the expansionary thrust from the Federal sector. In the absence of tax rate increases, the deficit would probably stay near the \$12½ billion rate averaged in calendar year 1967. A deficit of this size would give the economy too strong a push from the fiscal side—a push that might very well throw it badly off balance.

Even with fiscal restraint, the economy will move ahead briskly—perhaps too briskly. Business fixed investment is on the rise again. Inventory investment has been picking up. If the availability of mortgage money holds up, residential construction expenditures will rise significantly. State and local governments will be spending appreciably more. And Federal spending will also be up some—despite close budgetary control.

All things considered, the balance of risk is that the economy will begin to exceed safe speed limits if fiscal restraint is not promptly applied. And, if the pace of the economy does begin to accelerate—with all that it implies in terms of a more rapid rise in prices and a deteriorating trade balance—there will have to be restraint of some sort. If it all has to come from monetary policy, the result could be a return to tight money, drastically reduced availability of credit, and imbalanced financial markets.



### Financial prospects

Currently, the cost of borrowed funds to home buyers, State and local governments and businesses, is generally at or above the peaks reached at the height of the financial crunch in the late summer and early fall of 1966. In that period, the Federal Government's credit demands were contributing very little to the stringency in the money and credit markets. Since mid-1967, however, the story is different.

Most observers of the financial scene feel that a major factor in the rise in interest rates in 1967 was the Federal Government's fiscal situation. There was an immediate impact on the financial markets due to exceptionally large Federal borrowing. And participants in the financial markets also look to the future. In the absence of congressional action on the tax increase, the future looked like "more of the same"—continued heavy Federal borrowing, more inflation, and renewed monetary restraint.

The levels to which interest rates have risen have already forced postponement of some financial plans. As in any period of lessening credit availability, home financing faces particularly difficult problems. With the rise in yields available on market securities attracting more of the funds of individual savers, the flow of savings to financial institutions has begun to diminish—particularly inflows of funds to thrift institutions specializing in the financing of home construction and home purchases.

With the growth in their net savings flows declining, and with the yearend dividend and interest-crediting period approaching, fears of savings institutions mounted late last year of a repetition of the large withdrawal of funds that had occurred in mid-1966. Fortunately, the thrift institutions survived the critical yearend period without suffering massive disintermediation. But the relationship between the interest rate return these institutions can offer, and the yields available on market securities, is at a point where very much of a rise in market rates could trigger significant withdrawals of savings funds from these institutions.

Whenever there is serious concern about future inflows of funds, mortgage lenders are understandably reluctant to increase the volume of new commitments they are making for future mortgage lending. So far, loan commitments seem to have held up pretty well on a national basis, and lending institutions are in a relatively strong position. But this could change. In my opinion, prompt fiscal action to shrink the Federal deficit is still the best insurance of a continued advance in home financing and construction.

As for the general outlook for the credit markets over the months to come, given the projected GNP rise of \$60 billion or so, demands for funds by private borrowers, and State and local governments, are likely to be quite large. Just how large these demands will be will depend, of course, on a variety of factors, including the expectational and psychological climate in the economy and the financial markets. And how much of these demands can be satisfied will depend upon the demands of the Federal Government.

Why should an increase in private credit demands create such a stir in a growing economy? First, this would be an increase on top of a very hefty total last year. Second, monetary policy was relatively easy last year and is now pointed in the direction of restraint. Third, the Federal sector is making increasingly heavy demands in the credit markets and will continue to do so in the absence of fiscal restraint. It is the combination of heavy private and Federal demands for credit that threatens to strain market capacity and push interest rates still higher.

Let me sketch the dimensions of the Federal demands. Here, I am using the new unified budget. In the first half of calendar 1967, there was actually a large net repayment of debt from the Federal Government—resulting in a \$11 billion reduction in private holdings of Government obligations (counting in participation certificates and the securities of Federal agencies, including the Federal home loan banks and the Federal land banks). The comparable volume of repayments was only \$2 billion in January–June 1966, and \$4½ billion in January–June 1965. But, in the second half of last year, the Federal sector made net credit demands on the private sector of some \$18 billion. This was much above the net credit demands of, roughly, \$5 billion each in the July–December periods of 1964, 1965, and 1966. For the current half year, even with prompt action on the tax bill, there will be a contraseasonal net credit demand of \$5 billion or more.

Prospects for minimizing potential strain on money and credit markets in 1968 depend crucially on the enactment of the tax proposed by the Administration.



The tax program would mean an additional \$16 billion in revenues during the remainder of fiscal 1968 and in fiscal 1969. Given the outlook for Federal spending, as spelled out in the recent Budget Document, and with enactment of the tax proposal, the 1968 deficit would be about \$20 billion and, in 1969, it would fall to about \$8 billion in terms of the new Unified Budget.

Needed Federal borrowing to finance this fiscal 1969 deficit—including direct Treasury debt, sales of participation certificates in Government-held loans, and borrowing by Federal agencies—would approximate the amount of the deficit. (It should be noted that under the new Budget concept this total excludes the borrowing needs of the home loan banks and Federal land banks, as well as the funds supplied by the security purchases of the Federal Reserve System. It also excludes the financing needs to support the secondary market operation of FNMA after their assumed transfer to private ownership.)

Direct Treasury borrowing for the current half year—that is, the last half of fiscal 1968—is now largely completed with the recent one-two punch of a \$4 billion combined refunding and prerefunding of publicly held maturing February, August, and November debt with a 4¾ percent 7-year note, and a cash offering of a like amount of \$4 billion through issuance of a 5¾ percent 15-month note. Assuming the tax increase, the remainder of the Treasury's direct first half financing needs can probably be met mainly through the additions to our weekly bill sales announced last week.

But, there is other Federal borrowing aside from direct Treasury finance. Thus, there will be some sales of both Export-Import Bank and FNMA participation certificates. The Budget calls for additional participation certificate sales of about \$2.75 billion during the remainder of the current fiscal year—of which probably about \$2 billion would go to the public. In addition, there will also be some new money borrowings by several Federal agencies.

Still, the remaining Federal financing in the markets for fiscal 1968 is not large and should put little additional pressure on the credit markets.

But, as we look beyond the next few months and into fiscal 1969, the tax surcharge becomes the single most important factor in the Federal financing equation.

Without the proposed tax program, budget deficits would continue to be excessive from the point of view of both economic stabilization and credit markets. In terms of the new unified budget concept, the deficit for the current fiscal year would be about \$23 billion without tax action. In fiscal year 1969, without tax action, the deficit might decline only slightly to about \$21 billion. Fiscal responsibility is simply incompatible with back-to-back budget deficits in fiscal 1968 and 1969 exceeding \$20 billion.

### Price behavior and inadequate fiscal restraint

I have pointed out that a large Federal deficit is inappropriate at a time of high employment and rising demand. Our recent experience with prices has shown how important it will be to keep demand within bounds this year. In 1967, we had an appreciable amount of price inflation. Moreover, the general picture was one of a much faster rate of price increase in the second half of the year, when demand strengthened more than in the first half.

Without a tax increase, there seems little question that demand would grow at an unsustainably rapid rate this year. Labor shortages would become more acute. Cost increases would more readily be passed on in an atmosphere of buoyant demand. The outlook would probably be for continuing price rises this year, but for some acceleration of the rate of advance as the year progressed. This would bode ill for the maintenance of steady and sustainable economic growth next year and after.

Even with a tax increase, the price rise will not be stopped in its tracks. Price behavior, for a good part of this year, will still be heavily influenced by past developments. But, the tax increase would make a crucial difference by slowing the upward rise in prices and, with fiscal restraint, we should be well on our way to a less inflationary environment by the end of the year.

### Conclusion

Now, I conclude by coming back to savings bonds. Whatever the Federal deficit will be, we need to finance as much of it as possible out of savings—and savings bonds help greatly in this effort. Thus, it seems to me that our assignment—here, today, and in the months to come—is to build on success. That is, to follow through on the momentum built up in the banner year just ended—in

all phases of our program—but particularly in the area of payroll savings, which is the reason for our meeting together.

We have a message of great personal importance to get across to those millions of Americans who are not now signed up for systematic savings plans. That message combines the common prudence of planning for the financing of family requirements, along with the patriotic opportunity to lend a helping hand to the achievement of the affairs of the Nation.

We are most fortunate to be American citizens. The gift of citizenship endows our lives with privileges that are priceless. But good citizens don't just sit down and hug themselves over how lucky they are to be Americans. They know that it takes a lot of working; sometimes a lot of fighting.

The materiel of modern warfare comes high by the price tag. That's part of the penalty of protecting freedom. That's one of the costs of citizenship.

Let's remember that behind the fighting line and the supply line, there's the dotted line—where we sign up to buy savings bonds and freedom shares to help support the valor of our servicemen in Vietnam.

As a great public program, our joint venture in U.S. savings bonds has become the envy of the world. Nowhere else is there anything quite like the companionship of banking, business, education, Government, industry, and labor that blesses our endeavor together.

As a great nation, we've come a long way together, and together we can meet and master any challenge to our integrity, our prosperity, and our security.

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**Exhibit 19.—Statement by Under Secretary for Monetary Affairs Deming, April 3, 1968, before the Senate Banking and Currency Committee, on S. 2923, a bill to extend existing authority of the Federal Reserve banks to purchase public debt obligations directly from the Treasury**

I am very happy to appear before you this morning in support of S. 2923, which would extend until June 30, 1970, the present authority of the Federal Reserve banks to purchase public debt obligations directly from the Treasury up to a limit of \$5 billion outstanding at any one time.

My statement is quite brief, since I do not believe that provision of the necessary means for the efficient management of the public finances is or ought to be controversial.

This authority, which would otherwise expire on June 30 of this year, was first granted in its present form in 1942 for a temporary period. It has been renewed on 13 separate occasions since that time. While used only very sparingly during these past 26 years, I strongly share the conviction of my predecessors that maintenance of this authority is essential to the proper and economical management of the finances of the Government.

As shown in the table attached to my statement, the direct purchase authority was used on four occasions since it was last extended by the Congress two years ago. The authority was used only for a few days at a time, and the maximum amount outstanding at any one time was \$169 million. These borrowings occurred just prior to tax payment dates thus permitting the Treasury to operate with lower cash balances than would otherwise be required.

The figures in the table show clearly that the authority has not been abused. I firmly believe that our borrowings should meet the test of the market and that the direct purchase authority is not intended to allow the Treasury to circumvent the authority and responsibility of the Federal Reserve System in its Open Market Account operations. Any use of the authority, moreover, is clearly subject to the discretion of the Federal Reserve System and, thus, it can serve as an added instrument of Federal Reserve monetary policy. I might also add that these borrowings, like any other Treasury borrowings, are subject to the statutory debt limit.

Continuance of the direct purchase authority is essential for three reasons. First, it permits us to allow our cash balance to decline to unusually low levels during times when our revenues are seasonally low. We are, thus, enabled to keep the public debt to a minimum and to save on the interest costs of the Government. Without the potential ability to borrow directly from the Federal Reserve, these low balances could not prudently be maintained even for very brief periods. Rather we would be compelled to enlarge our cash balances by borrowing additional amounts in the market even though these amounts might be needed only for a short while.

Second, there is always the possibility that temporarily unfavorable conditions in the money and credit markets may make it desirable, both from our own point of view and that of the Federal Reserve System, to postpone for a short time a planned Treasury market borrowing. The possibility of direct access to the Federal Reserve provides the flexibility required in such a situation.

Finally, I need not stress that the direct purchase authority is a key element in our financial planning for a national emergency, such as might result from a nuclear attack on the United States. In such circumstances our financial markets could be seriously disrupted at a time when large amounts of cash were necessary to meet emergency requirements. It is for this reason that an authority as large as \$5 billion is required although such a large amount has never been used.

I might add that it would be advantageous in this uncertain world, if the temporary authority were to be made permanent. We are not, however, proposing that this be done although this committee might wish to discuss the question.

*Direct borrowing from Federal Reserve Banks 1942 to April 3, 1968*

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1942	19	\$422	4	6
1943	48	1,302	4	28
1944	none			
1945	9	484	2	7
1946	none			
1947	none			
1948	none			
1949	2	220	1	2
1950	2	108	2	1
1951	4	320	2	3
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	none			
1956	none			
1957	none			
1958	2	207	1	2
1959	none			
1960	none			
1961	none			
1962	none			
1963	none			
1964	none			
1965	none			
1966	3	169	1	3
1967	7	153	3	3
1968 to date	none			

## Taxation Developments

### Exhibit 20.—Statement by Secretary Fowler, August 14, 1967, before the House Ways and Means Committee, on the President's fiscal program

Thank you for this opportunity to appear before you in support of the fiscal program recently announced in the President's Message. This program includes both tax measures to increase our revenues and action by the Congress and the Executive Branch to restrain, cut, and control expenditures so as to reduce the prospective deficit in fiscal 1968 and thereafter to manageable levels.

I appeared before this committee in May to ask for borrowing authority needed to finance a war. In order to keep the use of that borrowing authority to proportions compatible with our national economic and financial health, I appear today to ask for taxing authority for the same purpose and to plead through this committee to the Congress that it join with the President in making every possible expenditure reduction—civilian and military—short of jeopardizing the nation's security and well being.



We are engaged in a costly conflict in Southeast Asia with no clear prospect of any early ending. But it is a temporary cost and surely one day will terminate when the enemies of freedom conclude that the price of aggression is too high. This unusual and temporary cost must be financed in a manner consistent with preserving sound, balanced economic growth without inflation at home.

Fiscal responsibility means differing things in differing circumstances. In a wartime context it must include the courage and willingness to raise the money that is as necessary as the guns, planes, and materiel needs of our forces in Southeast Asia.

In current circumstances fiscal responsibility means that in financing the special and temporary costs of Vietnam we should obtain as much from temporary tax revenues as economic conditions permit. However, it does not mean, under present circumstances, that we should try to eliminate the entire deficit by a tax increase—by a surcharge not of ten percent, but by one of nearly 50 percent.

Fiscal responsibility also means that we should hold down and restrain expenditures that can be cancelled or postponed without damage to our national interest. It does not mean attempting the impossible—the elimination of the deficit solely by reducing expenditures.

The course of fiscal responsibility is the program outlined by the President, namely, reducing the deficit “by rigidly controlling expenditures, raising as much money as possible through increased taxes, and then borrowing the difference.”

After an intensive examination of all the facts available to us, my colleagues here and others in the Cabinet have advised and recommended to the President that the prompt temporary imposition of a ten percent surcharge on both corporate and individual income taxes, except for individuals in the lower income brackets, is a necessary and equitable financial measure. We have concluded that this proposal, supplemented by a speedup of corporate tax collections and a temporary deferral of scheduled excise tax reductions, is not only consistent with the objectives of sustained growth, high employment and price stability, but necessary if these objectives are to be successfully pursued.

Let me now set forth the basic overall reasoning that led us to the conviction that the President's program represents the best choice of fiscal measures that the present circumstances permit. The Director of the Budget, Mr. Schultze, will cover the budgetary and expenditure aspects of the President's program in depth, and the Chairman of the Council of Economic Advisers, Mr. Ackley, will deal in some detail with the economic aspects of the program. I will also discuss some of the financial reasons for the program and explain how the tax measures would be implemented and how they would affect taxpayers.

I want to emphasize that we have arrived at these views on the basis of what the President termed “the hard and inescapable facts.” What are these hard facts?

First, our special Vietnam costs are now being incurred at a rate in excess of \$22 billion per year. These costs are at levels that call for more financing from current tax revenues—by a temporary surcharge of as much as economic conditions permit.

Second, without this temporary surcharge, our budget deficit in the current fiscal year would increase to unacceptable levels. This statement is based on the original January budgetary levels of revenues and the expenditures for Vietnam and all the other defense and civilian programs, and on the developments outlined in the President's Message which make it necessary and realistic to revise the expenditure estimates upward and the revenue estimates downward.

Third, despite the Federal Reserve System's continued application of a policy of monetary ease, resulting in a substantial expansion of the nation's money supply and credit, we are witnessing a return of long-term interest rates to levels near their peaks of late last summer. Recently, short-term rates which had moved steadily downward since last fall, have reversed their direction and have begun to move back up. This temporary surcharge is therefore necessary to avoid the risk of excessively high interest rates and limited credit in particular sectors, such as housing.

To the extent that the Federal Government must finance its growing deficit by borrowings on the credit markets rather than pay for its additional expenditures by additional revenues raised through the surcharge, Government borrowing will increase the pressure on these markets and contribute to high interest rates and the risk of inequitable and damaging imbalances in credit availability—even assuming a continuation of the recent high rates of growth of money supply and bank reserves.



The imposition of the tax surcharge is prompted by these hard facts of the current cost levels of the hostilities in Vietnam, the current level of the budgetary deficit that is being incurred, and the current levels of interest rates and credit conditions in both the long and short-term areas. This conclusion does not involve guesswork. Given these facts, the only valid reason for failing to impose this temporary surcharge would be a solid conviction that it would be inconsistent with preserving sound, balanced economic growth.

Although a temporary surcharge was included in the fiscal 1968 budget program to be effective July 1, it is wise for both the President and the Congress to take this final decision when the course of economic developments accompanying the inventory readjustment in progress indicated that the impact of a tax increase would be beneficial rather than harmful.

We are now of the unanimous view, and that view is confirmed by the overwhelming preponderance of economic fact and opinion, that any real danger of an economic downturn is past. Indeed, the outlook given the scale of Federal, State, and local public expenditures and private demand, is for a substantial rate of growth in the period ahead—with the debate being confined to exactly how rapid the growth will be.

This provides the fourth and final reason for a temporary surcharge. We view the surcharge as a measure of insurance against the risk that, without this program of combining a temporary tax increase with expenditure restraint, the levels of growth would give rise to unacceptable inflationary pressures. This development would take a toll of our economic balance and stability or be curbed by excessively high interest rates and tight money that would provide an unhealthy, unbalanced economy, ill adapted to a smooth transition to peace with prosperity.

### I. WE NEED THE TAX INCREASE

#### 1. To meet the special costs of Vietnam

I am sure that so long as hostilities are continuing in Vietnam no Member of the committee would want or has wanted to deny the finances necessary to permit our fighting men to do an effective job. In the fiscal year 1966, the special Vietnam outlays that followed upon our national decision of late July 1965 added \$6.1 billion to our administrative budget expenditures. However, due mainly to the accelerated growth of our economy, revenues climbed by \$11.6 billion, so that we were able to close out the fiscal year 1966 with an administrative budget deficit of only \$2.3 billion, which was \$3 billion below the \$5.3 billion forecast in the original submission of the budget in January, 1965.

The original estimate for special Vietnam costs in fiscal 1967 as submitted in the January 1966 budget, was \$10.5 billion, more than a \$4 billion increase over fiscal 1966 costs. Accordingly, the Tax Adjustment Act of 1966 was recommended and shortly enacted. It provided an additional \$1.2 billion of revenues in fiscal 1966 and an additional \$4.6 billion in fiscal 1967, by accelerating collections and deferring scheduled excise tax reductions. That act did not involve any increase in individual or corporate liabilities.

In the latter part of the calendar year 1966 it was apparent that the special costs of Vietnam in fiscal 1967 would be nearly double those originally estimated in the January budget. This reflected the rapidly increasing scale of hostilities and the fact that, with these hostilities likely to continue, it had become necessary to plan and budget for the continued conduct of hostilities on a substantially increased scale through fiscal 1968.

A special supplemental appropriation for defense in the amount of \$12.9 billion was, therefore, requested in last January's budget message. A surcharge of 6 percent on both corporate and individual income taxes to last for 2 years, or for so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues, was recommended to become effective at the beginning of fiscal year 1968.

Immediate imposition last January of this surcharge was not requested because of the temporary period of slack in the economy resulting from fiscal and monetary restraints previously imposed and the inventory readjustment. Now, however, inventories have been substantially readjusted, and the course of the economy is heading upward.

I thus come to the hard, inescapable fact that the special costs of Vietnam are now being incurred at a rate—in excess of \$22 billion—that calls for a temporary increase in the tax liabilities of individuals and corporations to meet a portion of those costs.

## 2. To hold down the deficit

We could, of course, turn away from the course of responsible actions and attempt to meet our financial obligations without resort to a tax increase. Consider for a moment what this would mean in terms of the size of the deficit that would result.

The budget for fiscal 1968 submitted last January estimated expenditures at \$135 billion—\$75.5 billion for the Defense Department and Atomic Energy Commission, and \$59.5 billion for civilian programs. As the Director of the Budget will detail, these estimates may be exceeded by as much as \$8.5 billion—\$2.5 billion for civilian programs, \$2 billion for a possible denial by Congress of the authority to sell participation certificates in the amount included in the January budget, and \$4 billion for defense. In addition, with no tax increase and with expenditures at the higher end of these contingencies, outlays for interest on the public debt would also rise, by up to perhaps as much as \$700 million.

The President has pledged to take every proper action to avoid an increase of this magnitude. But as he pointed out in his message to Congress, action by the Executive Branch alone is not sufficient. The outcome will also depend on congressional action with respect to appropriations and mandatory spending requirements.

Turning to the receipts side, since last January revenue estimates have been revised downward by approximately \$7 billion:

—\$800 million as the result of congressional action in restoring the investment credit and accelerated depreciation earlier than the budget had assumed.

—\$1.3 billion because of lower corporate profits and \$300 million because of lower personal income than projected 6 months ago.

—\$3 billion because of a decrease in estimated yield from existing income tax rates and \$200 million because of a decrease in the estimated yield of gift and estate taxes and customs.

—\$600 million because of a reduced estimate of miscellaneous receipts such as stockpile sales (\$450 million) and offshore oil revenues (\$80 million).

—\$800 million because of a later effective date for the surcharge on personal income taxes than recommended last January.

The budgetary consequences of these revised estimates of revenues and the expenditure contingencies outlined would imply a deficit of \$23.6 billion. In the event no tax increase were enacted, and in the absence of tight expenditure control, the deficit could rise to \$29 billion (including \$700 million for the higher interest cost on the public debt that such a deficit would involve). On the other hand, with tight expenditure control and with the tax increase programs, the deficit can be kept within a range of \$14 billion—\$18 billion.

Chairman Ackley will develop in detail the broad economic consequences that are presented by a choice between these two alternative courses of action.

## 3. To avoid excessively high interest rates and tight money

I cannot stress too strongly my deep concern about the pressures that would be exerted on the money and credit markets by the borrowing requirements associated with a deficit in excess of a \$14 billion—\$18 billion range. The credit markets can accommodate a Federal deficit of considerable size. But given present private demands for credit, an outsized Federal deficit, such as would result without the proposed tax rise and expenditure restraints, cannot be accommodated without severe disruption to the credit markets, sending interest rates sky-high and shutting off the flow of credit to sectors such as the home mortgage market and small business.

Some people may ask why we have to raise taxes and hold back spending. Why can't we borrow more? Isn't the U.S. Government's credit good? These questions come naturally because none of us likes to raise taxes or reduce or deny funds for many worthwhile programs. The fact is that we must choose among alternatives: one is to raise taxes and reduce expenditures to the maximum extent feasible, and then borrow the rest; the other is to go much deeper into debt through very heavy borrowing. It is my particular assignment today to explain why unlimited recourse to borrowing would be risky and unfortunate in the present financial situation.

Some may also ask: "What about World War II, wasn't there very heavy recourse to borrowing then?" The answer is that there was such recourse then, but it was undertaken only in conjunction with widespread direct controls (complete allocation of materials and facilities; price, wage and salary controls; direct credit controls) that limited activities not directly related to the war effort. Even

with these measures there was a substantial inflationary cost. In the current situation we have avoided those rigid controls, and also avoided the milder controls of the Korean period. We propose in the present situation to follow general fiscal and monetary policies that continue to make it possible to avoid rigid direct controls.

Now let us consider our financial markets and the demands on those markets. To see how the pieces fit together, we need to look at the whole range of demand and supply factors. Concentration on just one part of the whole picture will not do. This run-down may be a bit elementary and even tedious, but I think it is so important to keep the whole credit market picture in mind that it is worth going over this with some care.

On the demand side, the major components are the business sector, the consumer sector, and Government.

Businesses borrow to expand their facilities and for working capital, such as to finance inventories.

Consumers borrow chiefly to finance home purchases and for an increasing variety of consumer goods and services—such as cars, vacations, college expenses.

Governments borrow to finance their cash deficits, which arise when the net outpayments from spending and lending programs are not covered by tax and other revenues.

On the supply side, the main sources of credit are the banking system, other financial institutions, and savings generated in the business and consumer sectors. Two of these sources deserve special mention because of their strategic importance.

The banking sector, including the central bank, is a kind of balance wheel which can be permitted or encouraged to supply increasing amounts of credit, or discouraged from so doing by the availability of reserves provided through the central bank.

The other highly strategic sector is the direct supply of credit from individuals. It is strategic because its variations up or down are closely related to net pressures on the markets and on interest rates. Normally, the volume of credit supplied directly by individuals is small. Most individuals place their savings with thrift institutions which in turn lend these funds to borrowers. This is known as financial intermediation. When this individual sector is called on to supply a substantial amount of credit directly, rather than through savings institutions or other intermediaries, it is usually a sign of market pressure. This normally occurs when demand is rising very strongly and borrowers are more interested in getting their money than in the rates they have to pay for it.

That is what happened in 1966. With credit demands running strong, and supplies limited, interest rates on open market paper kept rising until willing investors could be found—which in many cases involved the withdrawal of funds from thrift institutions and direct investment by individuals in high-rate market paper. The halt in bank credit growth thrust further demands on individuals. Credit demands had no place else to go, once the banks and other financial intermediaries could not handle any more. Either the demands could be met by the residual sector—individuals—or they could go unmet. In the process of sorting out the demands that would be met and those that would not be met, interest rates last summer reached the highest levels in several decades.

Starting a little less than a year ago, there was a dramatic turn for the better in the credit markets, reversing some of the forces that had produced earlier strains, but leaving some scars and vivid recollections. The factors making for a change included the temporary suspension of the investment tax credit, a reduction and rearrangement of Federal demands on the credit markets, holdbacks in Federal spending programs, legislation and administrative action to restrain the fierce competition for consumer savings, and a Federal Reserve move toward easier reserve availability. By early 1967, credit market pressures relaxed further, as economic growth abated, monetary policy eased some more, and the President's fiscal program announced in January proposed a tax surcharge to begin in fiscal year 1968.

Easier credit was evident in terms of both availability and cost. The nation's money supply expanded at a 6 percent annual rate in the first half of this year, while total bank credit has grown at an annual rate of about 11 percent. The discount rate was reduced from  $4\frac{1}{2}$  percent to 4 percent, and the prime bank lending rate from 6 percent to  $5\frac{1}{2}$  percent.

Yet, in the face of this expansionary monetary policy, long-term interest rates, which had turned down from their peaks of last August and September to sub-



stantially lower levels through March, have more recently moved back up and reached levels uncomfortably close to last summer's peaks. Indeed, for some types of Government and corporate bonds, current rates are as high as those of a year ago.

The decline in short-term rates from last year's peak levels proceeded into June, and extended to more than two full percentage points on some types of securities. In recent weeks those rates have also bottomed out, however, and moved back up as much as a percentage point—although they remain well below last year's peaks.

A major cause of the rise in long-term rates since March is the huge volume of borrowing by corporations and by State and local governments. New capital issues by corporations in the first 7 months of 1967 were a record \$13.5 billion, up 23 percent from the similar period in 1966—which had been a record-breaking year. If one excludes private placements by corporations and looks just at public offerings, which have a greater immediate market impact, the volume of new issues was \$7.2 billion in the first half of this year, against \$8 billion in all of 1966 and \$5.6 billion for all of 1965.

To a considerable extent, this heavy pace of offerings has reflected a desire of corporations to take advantage of greater credit availability to rebuild their liquidity and reduce their dependence on the banking system. Last summer, even some of the largest corporations found their access to bank credit limited, and this experience is still quite memorable to corporate treasurers.

States and municipalities have also borrowed very heavily, and for somewhat similar reasons—making up for some postponements of borrowings last year and seeking to obtain some money needed now or in the future while it is currently available. New tax-exempt issues by State and local authorities came to \$8.8 billion in the first 7 months of this year, up about 28 percent from a year earlier.

There is an additional market factor that seems to be impelling this headlong rush to borrow, even at current high rates. Many of these corporations and governmental authorities are said to be pushing their borrowings because they fear that a greatly increased Federal Government deficit will produce still higher interest rates and tighter conditions of credit availability in the months ahead. And they are apparently concerned that big Federal Government demands might coincide with an increasing buildup in private demands that would revive inflationary pressures, in turn boosting spending and income and eventually stimulating still greater credit demands.

The fact that this can happen against a background of expansionary monetary policy has been demonstrated clearly in recent weeks and months. So it is no answer for those who inveigh against high interest rates to call for easy money unless they are ready to see higher taxes or unless they are willing to take the risk of a serious inflation.

A special reason for prompt action to cut the prospective Federal deficit is the desirability of encouraging the current uptrend in homebuilding and the increased availability of money in the mortgage market. Last year the mortgage market was starved for funds and homebuilding went through the wringer—particularly as thrift institutions lost funds to higher paying open market paper and bank deposits. This year, traditional mortgage lenders have experienced record inflows of funds. Some of this inflow has been used to rebuild depleted liquidity, but the availability of mortgage funds has also improved greatly. Yet there can be no complacency about this improvement, for since this spring, rising interest rates on corporate securities have tended to attract some funds from thrift institutions into these securities rather than into mortgages. The recent rise in short-term rates, if it goes much further, could pull savings funds directly out of the thrift institutions. These developments raise the possibility of a new stringency in housing credit.

We do not present the proposed tax surcharge as something that will cut interest rates immediately and sharply, or eliminate all the problems that have faced the financial markets, the mortgage market, or homebuilding in the past 2 years since the Vietnam escalation began. Even with a tax increase, there will be a sizable Federal deficit, and sizable competing demands from the private sector.

But a tax surcharge will reduce the size of the Federal deficit and the size of Federal borrowing needs. It will help assure a continuation of expansionary monetary policy, and it will reassure borrowers and lenders that there is no need for a renewed scramble for funds or run-up of interest rates. It could well turn the tide in the credit markets, calm down the precautionary borrowing and produce freer flows of funds at more reasonable rates of interest.



We have discussed the recent role of certain key private sector demands on the credit markets, but it is particularly important, in weighing the need for fiscal action, to look at Federal Government demands. Consider these facts relative to Federal credit demands on the private sector in the fiscal year ended June 30, 1967:

—The total outstanding volume of Treasury securities, Federal agency securities, and participation certificates increased by slightly under \$10 billion.

—But Government investment accounts increased their holdings of these issues by \$11.6 billion, and the Federal Reserve added \$4.5 billion to its holdings.

—Thus instead of exerting a net credit demand on the private sector, Federal credit market operations actually supplied over \$6 billion to the private credit markets through net repayment of debt.

—Even after making an adjustment for the \$5 billion decline in the Treasury's cash balance over the fiscal year, there was still a net repayment of credit from the Federal sector to the private sector.

The picture in this current fiscal year will be different. It will not be a question of net repayment of credit by the Federal Government to the private market, but of how large a net demand might be made on those markets.

Illustrative of the possible Federal credit demands, suppose that the administrative budget deficit in fiscal year 1968, with the proposed tax measures enacted, is \$14 billion.

—Adding together the increases in Treasury debt, Federal agency debt, and participation certificates, there would be an increase in outstanding obligations of some \$20 billion—\$21 billion. Making rough allowance for purchases by the Government investment accounts and Federal Reserve, the net demand on the private sector might be around \$10 billion—\$12 billion. (This \$10 billion—\$12 billion net demand for the full fiscal year should not be confused with the estimates recently reported for prospective Treasury borrowing in the July–December 1967 period; the latter estimates, which anticipated market borrowing of \$15 billion in Treasury issues and possibly \$2 billion in participation sales, include a seasonal component which would be reversed later in the fiscal year when a seasonal surplus of revenues over expenditures is anticipated.)

—Without the proposed tax measures, the Federal sector's net demands on the private credit market in fiscal year 1968 would be \$7.4 billion greater. Moreover, added financial requirements could arise, as they did in 1966, from further demands on Federal credit agencies, because of tightened credit conditions in the private sector.

—The total of Federal credit demands on the private sector, without tax action, could thus reach \$20 billion, or exceed it if expenditures ran to the higher side of the range of contingencies now contemplated.

Moreover, the difference between net Federal credit demands on the private sector on the order of \$10 billion—\$12 billion, or on the order of \$20 billion or somewhat more, depending mainly on the presence or absence of tax action, does not tell the full story. For along with swollen Federal credit demands, the failure to hold down the budget deficit would create an inflationary environment in which private credit demand could soar, and in which it would be more difficult to continue an expansionary monetary policy, and that would cut down on total available supplies of credit.

Thus private credit demands, in the absence of a tax surcharge, would be hit in three ways—by the enlargement of Federal credit demands, by a swelling of the private demands themselves, and by the curtailment of total credit supplies. The net result would be a vastly different set of credit market conditions, imposing a very substantially heavier net demand for funds that could not be met by institutional lenders, and that could be met only in part by the residual sector made up mainly of individuals.

One can only conjecture about the precise pattern and sequence of events through which tightened credit conditions would envelop the market in the absence of a tax increase, but last year's experience might provide some guidance. One could expect, for example, that as the Treasury and Federal agencies came to market in greater and greater volume, higher rates would have to be paid to draw in additional investors. Increasingly, the funds might be drawn from the thrift institutions that are the mainstay of the mortgage market.

In the meantime, corporate borrowers would bid rates up, and attract investment from institutional lenders that have the flexibility to shift among Government securities, corporate issues, and mortgages. Banks might well face insistent business demands to draw on credit lines, while lessened reserve availability

kept a tighter lid on the banks' total portfolio, so that less could be put into Federal Government securities or tax-exempt issues even at steeply higher interest rates.

Along with the mortgage market, and State and local government borrowers, other borrowers with relatively limited bargaining power and limited flexibility of alternative credit resources would also be likely to suffer disproportionately at the hands of tightened credit conditions—including small business and farmers. It would be a case of "pay up or do without," and perhaps a case of "doing without" even for those willing to "pay up" to a considerable extent.

It would be sheer hypothesis to guess what heights interest rates might have to scale in the grim process of sorting out the credit demands that would be met, and those that would not be met, but the pressures would clearly be there, in the absence of tax action and tight expenditures control action, to push rates substantially higher than they are now. One need only look around the world, even at highly industrialized countries, to see Government bond yields of 7 percent or more—and indeed of more than 8 percent during much of last year in Germany. Rates on prime industrial bonds in the United Kingdom have ranged as high as 8 percent as recently as a year ago, and these yields touched 9 percent in Germany.

These, I submit, are not tolerable conditions for the United States.

I have dwelt at some length on the importance of the proposed tax increase for the performance of financial markets and interest rates, because to my mind *that is a key reason for its enactment. With the proposed tax increase, and tight expenditure control, the net demand can be held to tolerable proportions that the credit markets can handle, given a reasonable supportive monetary policy climate. Without the tax increase, we are convinced that the credit markets could not finance the resulting deficit—except at the cost of sharply reduced availability of credit to meet private demands, and sharply increased interest rates.*

#### 4. To protect healthy economic growth and price stability

As I have already indicated, my judgment as to the necessity for the tax increase program is based on hard fact. I believe the hard evidence we have at hand clearly indicates that the economy is now on an upward course and that an economic recession is not in the picture.

Let me cite just a few of the factors I have in mind:

—The growth in final sales (to consumers, to Government, and to business for investment other than in inventories) in the first six months of this year exceeded the growth in the corresponding period of 1966—\$31 billion compared to \$24 billion.

—The growth of total GNP has been held down, of course, by the inventory readjustment. Considerable readjustment has taken place. Business inventories grew at an annual rate of only one half billion dollars in the second quarter of this year, which is the lowest inventory growth in 6 years. A return to normal inventory growth will contribute to a faster rise in GNP.

—Personal income rose \$3.7 billion in June, the largest rise in the past 5 months. As personal income has risen, retail sales have become more buoyant. Also the personal savings ratio which has been abnormally high in recent quarters is showing signs of returning to a more normal level.

—New construction generally has strengthened and residential housing starts have been rising strongly from the low point reached late last year.

—Total manufacturers' new orders for June rose for the fifth consecutive month, to \$46 billion, the highest since the record level of September 1966. Order backlogs are again beginning to rise, and in June reached the highest level so far this year.

—The unemployment rate dropped back to 3.9 percent in July after rising to 4 percent in June; the unemployment rate in all categories of workers either declined or remained unchanged. The unemployment rate for married men dropped from 2 percent in June to 1.8 percent in July.

From these and many other related facts which Chairman Ackley will develop in detail in his statement, we conclude that from an economic viewpoint a tax increase is an appropriate and desirable measure. Moreover, it is the best insurance we have against the possible development of an inflationary spiral. I do not argue that excessive growth of demand is the only factor causing prices to rise. But it has been and could again be a major factor, and the one factor that could produce a rapid upward spiral. The restraining influence of the tax increase will thus contribute to stabilizing the level of prices.

### 5. To protect our balance of payments

The tax increase will encourage the sound, balanced economic growth that is most favorable to our balance of payments position. Over the period 1961-64 when GNP rose on the average by about 6 percent per annum (money terms), the U.S. trade surplus increased almost \$2 billion, from \$4.8 billion in 1960 to \$6.7 billion in 1964.

Without the tax increase, we run the risk of faster, less well-balanced growth, and increased inflationary pressure. As events of the last 2 years have demonstrated, this can lead to a substantial increase in imports.

—In 1965 and 1966, when GNP rose at annual rates of between 8 and 9 percent, imports rose by about 15 percent and 18 percent, respectively—far more than exports—with the result that our trade surplus deteriorated steadily from \$6.7 billion in 1964 to \$4.8 billion in 1965 and to \$3.7 billion in 1966.

—Expressed as a percentage of GNP, imports rose from 2.9 percent, on average, in 1961-64 to 3.1 percent in 1965, and 3.4 percent in 1966.

Exports over the 2 years 1965 and 1966, taken together, continued to grow reasonably well despite higher cost and price increases than in the preceding period. How much better they would have done in the absence of excessive demand here, we do not know. We do know that in order to increase our trade surplus we must not only hold imports to a reasonable level but we must keep our exports competitive over the longer run. The tax increase contributes to this by reducing upward pressures on our costs and prices.

In the first half of this year, our trade surplus has, in fact, improved from the low annual rate of \$2.9 billion in the fourth quarter of 1966 to an annual rate of \$4.5 billion in the second quarter of 1967. We must not permit a new outburst of excessive demand to interrupt this trend.

The recently strengthened interest equalization tax and our voluntary Federal Reserve and Commerce programs will help hold capital outflows within reasonable limits.

To summarize, then, on why we need a tax increase :

—It is necessary to fulfill our obligation to finance the special cost of Vietnam in a responsible way.

—It is needed to hold down the size of the deficit to acceptable limits.

—It is needed to avoid the return of monetary stringency and high interest rates with their distorting and unfair impact on the economy, particularly in the home building sector.

—It is appropriate in relation to our current and prospective economic situation and insures against the danger of a spiralling of prices.

—Without the tax increase our balance of payments position will suffer.

## II. THE TAX INCREASE PROGRAM

To produce the needed revenues the President has proposed a three point program :

—A *temporary* surcharge of 10 percent of tax liability (not 10 percent of taxable income) to be placed on corporations and on those individuals with tax liability above an exemption level.

—To be effective October 1, 1967 for individuals, and July 1, 1967 for corporations.

—To remain in effect until June 30, 1969, or continue so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues.

—A speedup in corporate income tax collections.

—A postponement of the scheduled excise tax reductions on automobiles and telephone service during the period of the temporary surcharge.

### 1. The surcharge form of tax increase

In recent years there has been considerable expert discussion about the form that a temporary tax increase should take. We have concluded from that discussion that an across-the-board surcharge is generally the most appropriate method. A surcharge is simple to administer and easy for the taxpayer to understand. It is relatively prompt and predictable in its impact. It causes minimal disturbance to the existing pattern of relationships among taxpayers, and this seems fair and sensible for a moderate, temporary, emergency increase.

A surcharge is in line with the recommendations of the Subcommittee on Fiscal Policy of the Joint Economic Committee. In the spring of 1966 the subcommittee held hearings on the subject of tax changes for short-run stabili-



zation, which were a thorough and comprehensive investigation of the subject. The committee agreed that a uniform percentage addition to, or subtraction from, corporate and personal income tax liabilities, to be effective for a stated period, best satisfies the criteria for short-run stabilizing revenue changes.

It was in the light of these compelling considerations that a general surcharge—modified to avoid imposing additional tax burdens on individuals in the very lowest income brackets—was decided upon as the major measure in the President's program.

I want to make quite clear that the choice of the surcharge form to meet a temporary need by no means implies a turning away from the need for achieving important permanent structural changes in the tax system.

Indeed, as the President stated in his Economic Message, he will be sending a message proposing comprehensive tax reform later in this Session.

Both in timing and objectives, however, tax reform should be distinguished from the present temporary surcharge recommendation. The surcharge is needed now for revenue. Expeditious action is essential if it is to achieve its purpose. It is a temporary measure and not a permanent part of our revenue structure. The central issues for congressional concern are the size of the needed increase and its timing.

The Tax Reform Message will require more deliberate consideration since it involves proposals for permanent structural changes and some redistribution of tax burdens in the interest of a fairer sharing of the load. Its basic objective is not to raise revenue but to correct a number of inequities and abuses in our tax system. Tax reform is a job that very much needs to be done. I hope your committee will be giving its consideration to the President's reform recommendations in the months ahead.

## 2. Effect of the surcharge on individuals

The 10 percent surcharge would be effective for individuals as of October 1, 1967. There has been some confusion about what the 10 percent applies to. For clarity, let me repeat that the surcharge percentage applies to the tax liability of the individual—not to the individual's income. A surcharge equal to 10 percent of the tax liability the individual would otherwise incur under present law would, of course, equal a much smaller percent of the individual's income. Thus, a married couple with two dependents with a wage income of \$10,000 and taking typical deductions, would have a tax of \$1,114 under present tax rates, and a 10 percent surcharge would amount to \$111. But this \$111 is only slightly more than 1 percent of the family's income.

The selection of the October 1 date—3 months later than the recommended starting date for corporations—reflects certain practical considerations involved in changing the current payments required to be made by individuals. Increased withholding rates for wages and salaries could not feasibly be put into effect at a much earlier date because of the time required both by the Internal Revenue Service and employers to prepare and implement new withholding schedules. It is generally desirable to keep down the slippage of time between the effective date for a tax increase and the date on which increased withholding becomes effective, in order to avoid necessitating large payments by individuals when they file their final returns.

Concretely, the surcharge would apply to individuals as follows:

—Since the surcharge would be effective October 1, 1967, and thus be in effect for only one-quarter of the year 1967, the rate of the surcharge for that year would be  $2\frac{1}{2}$  percent of the tax for the entire year 1967.<sup>1</sup> If the tax on an individual for 1967 would be \$1,000 under present law, the surcharge would raise this tax by \$25 to \$1,025. Increased withholding rates incorporating the surcharge would go into effect October 1, 1967, so that individuals with wages or salaries would remain on a current payment basis.

—Since the surcharge would be in effect for all of the calendar year 1968, the surcharge due on calendar year 1968 tax liability would be the full 10 percent. On a tax of \$1,000 which an individual would otherwise incur, the surcharge would come to \$100 or 10 percent.<sup>1</sup>

Persons of restricted means should not be required, even in times of emergency, to sacrifice already minimal standards of living. Consequently, the proposal provides an exemption for such persons.

<sup>1</sup> The surcharge applies to the present tax law including the tax on capital gains.



The exemption from the surcharge covers taxpayers whose taxable income falls entirely within the first two brackets of the individual income tax.<sup>1</sup> Generally, this exemption would exclude from the surcharge:

—All single persons with taxable incomes of \$1,000 or less after deductions and exemptions; all married persons with taxable incomes of \$2,000 or less after deductions and exemptions; and all heads of households with taxable incomes of \$1,500 or less after deductions and exemptions.

—In terms of specific tax liabilities, single returns having \$145 or less tax, joint returns having \$290 or less tax, and head-of-household returns having \$220 or less tax would be exempt.

—In terms of total earnings, married couples with two children with earnings of \$5,000 or less per year and single people with earnings of less than \$1,900 per year would not be subject to the surcharge, assuming the use of the minimum standard deduction.

The exemption will cover about 16 million taxpayers, or approximately one-sixth of the 98 million total of all taxpayers. Of the 16 million who will not be subject to the surcharge, approximately 5 million are single individuals and 11 million are married taxpayers.

The effects of the proposal may be illustrated by applying the proposed surcharge to a married couple with two dependents using typical (10 percent of income or minimum standard deduction) deductions:

—With \$5,000 earnings, their tax will be unchanged (and still \$130 lower than they would have paid in 1963).

—With \$10,000 earnings, their tax will rise \$28 in 1967 and \$111—or \$9.25 a month—in 1968 (their 1968 tax will still be \$147 less than they would have paid in 1963).

—With \$20,000 earnings, their tax will rise \$79 in 1967 and \$316—\$26.34 a month—in 1968 (their 1968 tax will still be \$324 less than they would have paid in 1963).

Since the bulk of American families—three out of every four—have an income below \$10,000, they will be paying less than \$9.25 a month, down to only about \$2.50 a month.

### 3. Effects of the surcharge on corporations

The 10 percent surcharge would apply to corporations, effective July 1, 1967. Thus, for calendar 1967 the surcharge would be higher than for individuals because of the earlier starting date. For corporations whose taxable year coincides with the calendar year, the surcharge for calendar year 1967 would be 5 percent (compared to 2½ percent for individuals) since it applies for one-half the year. The full 10 percent surcharge would apply for 1968.

For corporations whose taxable year does not coincide with a calendar year, the rate of the surcharge would be determined on the basis of the number of days in the corporation's fiscal years that fall within the period during which the surcharge is in effect (July 1, 1967–June 30, 1969).<sup>2</sup>

A calendar year corporation with profits before tax of \$100,000 will pay an extra \$2,075 in 1967 and 1969, and an extra \$4,150 in 1968.

### 4. Revenue effect of the surcharge

The revenue effect of the surcharge will be to:

—Increase fiscal year 1968 receipts in the administrative budget by \$6.3 billion:

—The increase in receipts from individuals amounting to \$4 billion.

—The increase in receipts from corporations amounting to \$2.3 billion.

### 5. The speedup in corporate tax collections

Two steps are recommended to place corporations on the same current tax payment basis as individuals. Beginning January 1, 1968, corporations would pay their estimated tax liability on the basis of 80 percent of estimated tax liability, rather than 70 percent as under present law. Corporations would then be on the same percentage basis that individuals, sole proprietorships, and partnerships have been on since the beginning of this year.

<sup>1</sup> A special provision will also insure that persons receiving retirement income qualifying for the retirement income credit will maintain their present parity for income tax purposes with recipients of Social Security benefits.

<sup>2</sup> Thus, a corporation with a November 30 fiscal year would apply a proportionate surcharge rate to its 1967 fiscal year determined as follows: 10 percent multiplied by a fraction the numerator of which is 153 (the number of days in the taxable year after June 30, 1967) and the denominator of which is 365, or approximately 4.2 percent.

The second proposal to bring corporations to a current estimated tax payment basis is to eliminate, over a 5-year period commencing January 1, 1968, the \$100,000 of tax exemption from estimated tax payment requirements. By this measure, all corporations, small, medium, and large, will gradually be placed on the same current tax payment basis as individual proprietors and partnerships. The 5-year transition period assures that the change to a current tax payment basis will be accomplished in an orderly and balanced manner. All corporations, regardless of size, can plan for steady implementation of the system, and will not have to catch up to totally current basis in any one year.

The 80 percent requirement would add about \$400 million revenue in fiscal year 1968.

The transition to current payment for the first \$100,000 of corporate tax would add about another \$400 million revenue in fiscal year 1968 and equivalent amounts in each of the ensuing 4 fiscal years.

These proposals are logical extensions of the transition to a current payment basis for corporations reflected most recently by the Tax Adjustment Act of 1966, and are appropriate responses to the obvious need to align corporate payment rules with those applicable to noncorporate taxpayers.

## 6. The postponement of the scheduled excise tax reductions

Under present law the excise tax on passenger automobiles is scheduled to drop from 7 percent to 2 percent April 1, 1968, and then to 1 percent January 1, 1969. The excise tax on telephone service is scheduled to drop from 10 percent to 1 percent April 1968, and then to zero January 1, 1969.

It is appropriate in the light of our revenue needs that these scheduled reductions be deferred for the period during which the proposed surcharge is in effect. Since these excises are currently in effect, deferment of their reduction is a relatively simple matter administratively for business firms and the Government. Moreover, the burden of these taxes is widely dispersed over the population and does not rest disproportionately on a narrow segment of the community. The proposal suspends the above scheduled reductions until July 1, 1969, and January 1, 1970, respectively. The additional revenue derived would be approximately \$300 million for fiscal year 1968 and approximately \$2.5 billion for fiscal year 1969.

The revenue effect for fiscal 1968 of the President's three-point tax program, as a whole, then is to increase receipts by \$7.4 billion:

- \$6.3 billion from the surcharge.
- \$800 million from the speedup of corporate collections.
- \$300 million from the deferral of scheduled excise tax reductions.

Assuming the President's tax program is enacted, total receipts for the administrative budget for the fiscal year 1968 are estimated at \$122.5 billion. A breakdown of this revenue estimate is attached. The size of the deficit would depend upon the final level of expenditures. Higher expenditures affect the deficit directly, of course, but also indirectly through their impact on private incomes and thereby on Federal revenues. Were expenditures to fall in the high end of the range, for example, revenues would rise by perhaps as much as a billion dollars.

In summary, the President's proposal provides needed revenues by balanced and equitable means:

—The speedup in estimated tax payments for corporations brings this sector of business into parity with unincorporated businesses.

—The effect of postponing the scheduled excise tax reductions is dispersed widely over the population.

—The surcharge is a temporary measure designed for relatively simple implementation and termination, which applies progressively in the same manner as our basic income tax liability, but appropriately exempts those who, because of low incomes, should not be required to shoulder this additional responsibility.

## CONCLUSION

I end on a point with which I began: based on the hard facts we all face, the President's program for combining a tax increase with expenditure reduction to diminish the deficit and the extent of Government borrowing represents a sound, fair and fiscally responsible choice of the alternatives open to this Committee, the Congress, and the American people.

Admittedly, no one likes to pay additional taxes even for a temporary period. The President does not like to recommend an increase in taxes; the Secretary

of the Treasury and his colleagues do not like to plead for an increase in taxes; we know this Committee does not like to ask the House of Representatives to vote an increase in taxes.

All of us—President, administration officials, this committee and the House—have proven alert and anxious to reduce the Federal tax burden on the American people.

We have done so, and in recent years this policy of Federal tax reduction has meant substantial savings for the American taxpayer. In 1962 the investment tax credit was passed. In 1964 the most significant reductions in personal and corporate income taxes in history were voted. In 1965 excise taxes were removed on over 200 items. It has been my privilege to espouse all of these measures before this committee.

As a result of these reductions initiated in the Congress by this committee, despite constantly rising State and local taxes, Americans enjoy a lower tax burden than any major industrial country in Western Europe—and this includes taxes levied at all levels of government, Federal, State, and local. Figures collected by the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5 percent in taxes; Germany, 34.4 percent; Italy, 29.6 percent; United Kingdom, 28.6 percent; and the United States, 27.3 percent.

As the President said in his Message:

"If Americans today still paid taxes at the rates in effect when I became President, a little over three years ago, they would be paying this year over \$23 billion more than they are paying now."

*The enactment of the proposed surcharge would temporarily take individual tax rates less than one half way up to the 1963 levels.*

Attached to my statement are tables showing precisely how much better off tax-wise each individual taxpayer will be in 1967 and 1968 even with the temporary surcharge, compared to his income tax liability in 1963.

For a little more perspective on what the surcharge means for the individual taxpayer, let me point out that the surcharge:

—In the aggregate, would amount to only one percent of individual income before all taxes.

—Would place a far lesser burden than the tax increase of the Korean War, when the average increase in tax rates was the equivalent of about a 28-percent surcharge.

—Would be in no way comparable to the increase in tax burden in World War II when the ratio of income tax to total personal income rose from 1.3 percent to 10.8 percent, resulting from increased rates, reduced exemptions and rising incomes. This was a 730-percent increase, starting from a small base.

For the corporation, the surcharge will be an increase of 10 percent compared to an average rise of 52 percent during the Korean War. In World War II the effective rate on corporations due to a combination of rate increases and the excess profits tax resulted in effective rates that were higher by 174 percent.

Now once again armed conflict involves our security. As the President said:

"There are times in a nation's life when its armies must be equipped and fielded, and the nation's business must still go on. For America that time is now."

The time has come when we must levy a temporary tax to defray a portion of the cost of the conflict in Southeast Asia and thereby forward the Nation's business.

The Nation is determined to see those hostilities terminated, but only under conditions consonant with a future for peace and freedom that offers no reward for Communist aggression or its cult of violence and subversion.

This is an occasion to recall the statement of a great American of another day, Justice Oliver Wendell Holmes, who said: "Taxes are what we pay for civilized society."

We cannot share the sacrifices our brave men are making in the field. But we can meet the fiscal challenge at home. We can provide the additional taxes that will help hold the budget deficit within limits conducive to the maintenance of a healthy, balanced economy, well fitted for the eventual transition to a peace with prosperity.

It is my firm conviction that, however unwelcome to Americans as taxpayers, the President's program is in the best interest of those same Americans—

—As consumers who want price stability;

—As wage and salary earners who have or seek jobs in an economy characterized by sustained and steady growth rather than boom and bust;



—As businessmen whose life blood is credit and steady expanding demand from confident customers;

—As home buyers and farmers to whom ever higher rates, tight money and increased costs are far more cruel than taxes;

—As poor, elderly, or living on a fixed income to whom a spiral of inflation is ruinous;

—As fighting men who dream of returning someday to a job, an education and a home.

Members of this committee share with the Secretary of the Treasury the special responsibility of seeing to it that the bills of the Government are paid—whether out of borrowed money or revenues. I hope you will share with me the conclusion that the prompt enactment of the President's tax proposals are necessary and indispensable parts of a program of fiscal responsibility.

TABLE I.—Comparison of 1963-66 tax liability and 1967-68 tax liability under proposed tax increase for illustrative taxpayers <sup>1</sup>

(Single individual)

Wage income	1963 tax <sup>2</sup>	1964 tax act decrease	1966 tax <sup>2</sup>	1967 tax <sup>2</sup>	Tax increase over 1966 tax <sup>3</sup>	1968 tax <sup>2</sup>	Tax increase over 1966 tax <sup>4</sup>
\$1,000.....	\$62	\$46	\$16	\$16	( <sup>5</sup> )	\$16	( <sup>5</sup> )
\$1,900.....	224	77	147	151	\$4	162	\$15
\$2,000.....	242	79	163	167	4	179	16
\$3,000.....	427	94	333	341	8	366	33
\$5,000.....	818	147	671	688	17	738	67
\$7,500.....	1,405	237	1,168	1,197	29	1,285	117
\$10,000.....	2,066	354	1,742	1,786	44	1,916	174
\$12,500.....	2,887	489	2,398	2,458	60	2,638	240
\$15,000.....	3,787	633	3,154	3,233	79	3,469	315
\$20,000.....	5,900	982	4,918	5,041	123	5,410	492
\$25,000.....	8,324	1,342	6,982	7,157	175	7,680	698
\$35,000.....	13,778	2,151	11,627	11,918	291	12,790	1,163

<sup>1</sup> Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of \$1,000 or less and joint returns with taxable income of \$2,000 or less.

<sup>2</sup> Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under \$5,000.

<sup>3</sup> 1967 tax minus 1966 tax.

<sup>4</sup> 1968 tax minus 1966 tax.

<sup>5</sup> There is no increase in 1967 or 1968 for a single person whose tax at 1966 rates is \$145 or less.

TABLE II.—Comparison of 1963-66 tax liability and 1967-68 tax liability under proposed tax increase for illustrative taxpayers <sup>1</sup>

(Married couple, no dependents)

Wage income	1963 tax <sup>2</sup>	1964 tax act decrease	1966 tax <sup>2</sup>	1967 tax <sup>2</sup>	Tax increase over 1966 tax <sup>3</sup>	1968 tax <sup>2</sup>	Tax increase over 1966 tax <sup>4</sup>
\$2,000.....	\$122	\$64	\$58	\$58	( <sup>5</sup> )	\$58	( <sup>5</sup> )
\$3,000.....	305	101	204	204	( <sup>5</sup> )	204	( <sup>5</sup> )
\$3,600.....	413	119	294	301	\$7	323	\$29
\$5,000.....	660	159	501	514	13	551	50
\$7,500.....	1,141	227	914	937	23	1,005	91
\$10,000.....	1,636	294	1,342	1,376	34	1,476	134
\$12,500.....	2,213	382	1,831	1,877	46	2,014	183
\$15,000.....	2,810	475	2,335	2,393	58	2,569	234
\$20,000.....	4,192	708	3,484	3,571	87	3,832	348
\$25,000.....	5,774	978	4,796	4,916	120	5,276	480
\$35,000.....	9,601	1,604	7,997	8,197	200	8,797	800

<sup>1</sup> Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of \$1,000 or less and joint returns with taxable income of \$2,000 or less.

<sup>2</sup> Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under \$5,000.

<sup>3</sup> 1967 tax minus 1966 tax.

<sup>4</sup> 1968 tax minus 1966 tax.

<sup>5</sup> There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is \$290 or less.



TABLE III.—*Comparison of 1963-66 tax liability and 1967-68 tax liability under proposed tax increase for illustrative taxpayers*<sup>1</sup>

[Married couple, two dependents]

Wage income	1963 tax <sup>2</sup>	1964 tax act decrease	1966 tax <sup>2</sup>	1967 tax <sup>2</sup>	Tax increase over 1966 tax <sup>3</sup>	1968 tax <sup>2</sup>	Tax increase over 1966 tax <sup>4</sup>
\$3,000.....	\$65	\$61	\$4	\$4	(5)	\$4	(5)
\$5,000.....	420	130	290	290	(5)	290	(5)
\$7,500.....	877	191	686	703	\$17	755	\$69
\$10,000.....	1,372	258	1,114	1,142	28	1,225	111
\$12,500.....	1,901	334	1,567	1,606	39	1,724	157
\$15,000.....	2,486	424	2,062	2,114	52	2,268	206
\$20,000.....	3,800	640	3,160	3,239	79	3,476	316
\$25,000.....	5,318	906	4,412	4,522	110	4,853	441
\$35,000.....	9,037	1,508	7,529	7,717	188	8,282	753

<sup>1</sup> Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of \$1,000 or less and joint returns with taxable income of \$2,000 or less.<sup>2</sup> Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under \$5,000.<sup>3</sup> 1967 tax minus 1966 tax.<sup>4</sup> 1968 tax minus 1966 tax.<sup>5</sup> There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is \$290 or less.TABLE IV.—*Estimated net administrative budget receipts in the fiscal year 1968, assuming President's tax program*

[In billions]

Individual income taxes.....	\$70.5
Corporation income taxes.....	32.7
Excise taxes.....	9.1
Estate and gift taxes.....	3.0
Customs.....	2.0
Miscellaneous receipts.....	5.2
Net administrative budget receipts.....	122.5

## Underlying income assumptions—calendar year 1967

Gross national product.....	783
Personal income.....	625
Corporate profits.....	80

**Exhibit 21.—Statement by Secretary Fowler, November 15, 1967, before Subcommittee Number 1, Select Committee on Small Business, House of Representatives, concerning legislative reform relating to private foundations**

I should like to take this opportunity to state, as succinctly and directly as I can, both the record and the position of the Treasury Department on legislative reform relating to private foundations. If you or your staff have any questions concerning the administration and application of existing laws in various individual cases and situations, I shall refer all questions and leave the discussion to the Commissioner of Internal Revenue in whom I repose the highest confidence. He is in charge of the administration of tax laws.

In his appearance before your committee in the summer of 1964, Secretary Douglas Dillon stated:

"As a matter of personal practice, I do not associate myself, and have disassociated myself ever since I was in the Treasury, with individual tax cases and tax questions, so that to the extent it is an individual case dealing with an individual taxpayer or an individual foundation which is not a taxpayer, but has to file information returns, I would not have any action. This has been left entirely to the Internal Revenue Service."

I, too, have followed that practice.

On detailed questions as to the various choices of remedy through modification of the laws applying to foundations, I shall call upon Assistant Secretary of the Treasury for Tax Policy Stanley Surrey, who was in charge of the study which

resulted in the submission of the "Treasury Report on Foundations"<sup>1</sup> which contained the Treasury Department's recommendations for new legislation concerning foundations. I resigned from the Treasury as Under Secretary in April 1964 and returned as Secretary in April 1965. In that interval, the Treasury completed its Report and Secretary Dillon submitted it to the appropriate committees of Congress for implementation. While I am not familiar in detail with all of the choices open at that time and the reasons for the selection of those which are included in the Treasury Report, by reason of not being in the Treasury Department then, I endorse the principal recommendations and will support them if called before the House Ways and Means Committee and the Senate Finance Committee.

From 1961 through 1964 the Department conducted an extensive study of the activities of private foundations and the operation of the present laws governing them. It analyzed the relevant administrative and litigation experience of the Internal Revenue Service and the Department of Justice. It made a special survey of a selected sample of about 1,300 foundations to secure new data about their characteristics and performance. Department representatives discussed the facts of the foundation world with lawyers, accountants, critics, administrators, and others familiar with foundation operations. Careful attention was given to the work of other investigators, including this subcommittee.

Drawing upon the information produced by this study, the Treasury Department concluded that six major problems exist among private foundations. The Department found, also, the presence of several additional problems of less general significance. In its "Report on Private Foundations", submitted to the House Ways and Means Committee and the Senate Finance Committee early in 1965, the Department described these problems in considerable detail, provided a series of illustrations of each of them, and recommended quite specific revisions of existing Federal laws to deal with them.

That study did not conclude that the abuses outweighed the benefits to society of private foundations. Rather the report concluded, and I firmly believe, that private foundations fulfill a vital need of our society; the need for the pioneer, and the vision of the experimenter. In this role, they both complement and supplement the services provided by government and by other nonprofit activities in general.

Thus, our recommendations were conceived within the framework of preserving this vital philanthropic activity. Our objective is the elimination of abuses engaged in by some and thereby to strengthen the institution itself.

We should not be misled or diverted from this goal by those who operate on the fringes of philanthropy or with the cloak of philanthropy but without philanthropic motive. The aberrations which they produce can be readily curbed either under existing law or if necessary by specific and selective legislative changes. It is a disservice to confuse those who pervert the law for private gain with those foundations which operate to sustain and advance philanthropy.

The Senate Finance Committee published the Treasury report at once. Later in the year the House Ways and Means Committee solicited written comments on the report from the general public. It published those comments in November and December of 1965.

In his 1966 Economic Report to the Congress, the President urged the Congress "to deal with abuses of tax-exempt foundations." In his Economic Report of 1967, the President again directed Congressional attention to the need for reforms in this area. However, the Ways and Means Committee—its time during the past several years almost steadily occupied by other major tax and Social Security legislation—has not yet taken further action on the Treasury Report.

An examination of the record, then, makes the Treasury Department position on foundation reform quite clear. Having studied the field thoroughly, the Department reported its findings to the Congress, made specific and detailed recommendations for legislative action, and has strongly urged adoption of those recommendations. The President has twice recommended action. The Department presently awaits the attention of the tax writing Committees to this important matter and stands ready to work on this important phase of tax reform with those Committees in the customary manner and procedure when they are ready to proceed.

Thank you.

<sup>1</sup> See 1965 annual report, page 364.

**Exhibit 22.—Letter from Secretary Fowler to Senator John J. Williams, November 22, 1967, concerning the Administration's tax surcharge proposal**

THE HON. JOHN J. WILLIAMS  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR WILLIAMS: Thank you for your letter of November 7, concerning the Administration's tax surcharge proposal. I know of no subject which demands more urgent attention among those concerned with the future of the American economy.

Because of your key position in the Senate and because of the many areas of mutual agreement between us, I would like to respond in full.

*History of the Proposal*

The Administration's proposal for a surcharge was made last January, almost 11 months ago.

Early in August it was revised due to the changed conditions in the economy. In the face of an unacceptable deficit, of rising interest rates and heavy inflationary pressures, the President on August 3 recommended a balanced fiscal program:

—"rigorously controlling expenditures"

—"raising as much money as possible through increased taxes" and

—"borrowing the difference."

Following his message, the President met with the leadership of both Houses and the ranking majority and minority members of the tax writing and appropriations committees. He invited every Democrat in the House of Representatives, and at least 50 Republicans to discussions in which he described the vital importance of a tax increase and the need to reduce less essential expenditures. He outlined the dangers of inaction to the American people.

The top fiscal officials of the Administration and the Chairman of the Federal Reserve Board (speaking for the entire Board) made detailed presentations in hearings before the House Ways and Means Committee from August 14 through September 14. Representatives of major business, financial and labor organizations, and leaders in the field of business and finance also testified.

The need for a tax increase was supported virtually unanimously. Many of those supporting a tax increase also spoke of another major element in the President's program: the need to reduce Federal expenditures.

At the time of the President's August 3 message, 11 of the 14 appropriation bills for fiscal 1968 had not been enacted. The President urged "the Congress to exercise the utmost restraint and responsibility in the legislative decisions which are to come and to make every effort not to exceed the January Budget estimates."

For his part, the President pledged to make every possible expenditure reduction—civilian and military—short of jeopardizing the Nation's security and well-being.

Since January, the Congress has been working its will on expenditures by acting on appropriation bills and on the Federal employee pay increase. As of today the Congress has passed 12 of the 14 appropriation bills for fiscal 1968. Both the House and Senate therefore, have taken, in your words "legislative action prior to a tax increase dealing with expenditures."

The Chairman of the House Appropriations Committee has stated that congressional action taken and anticipated is likely to reduce new spending authority proposed in the Budget by up to \$6 billion.

As a result of these appropriation actions, fiscal 1968 expenditures will be reduced by about \$1.5 billion.

The "indecision" over the tax increase to which you refer does not rest with the Administration. The uncertainty is whether the Congress will act on the President's recommendations. Consistently the President, the Council of Economic Advisers, members of the Federal Reserve Board, and senior officials of the Treasury have urged prompt enactment of the tax increase.

But on October 3, the House Ways and Means Committee adopted a motion, stating that:

"The Committee lay this matter on the table and that further consideration of the tax increase be deferred until such time as the President and the Congress reach an understanding on a means of implementing more effective expenditure reduction and controls as an essential corollary to further consideration of



a tax increase, and that at such time this matter will again be given priority in the Committee's order of business."

Two days after the House Committee action, President Johnson stated in his news conference:

"The Secretary of the Treasury was at the Committee session representing the Administration. He had certain proposals that he desired to make along the lines of my tax message and along the lines of what I have said in this statement—that we will try to have the Administration and the Congress agree on the restraints that the Congress desires to put into effect.

"We were ready that day, and we have been ready every day since—the Secretary of the Treasury and each department head—to appear before the Appropriations Committee or the Ways and Means Committee to express our views and to go as far as we can in carrying out the decision of the Congress."

The President restated his view in the strongest terms last week.

Since October 3 the House Ways and Means Committee has been in recess. Nonetheless, Budget Director Schultze and I have had a number of conferences with the Chairmen of the House Ways and Means and Appropriations Committees. We have tried to work out a solution to the problem of combining expenditure reduction and control with a tax increase in a manner that would be satisfactory to both committees and have some chance of being acceptable to the Senate as well.

Let us be clear, Senator Williams, that the Administration has made its willingness known "to get together" with the appropriate committees of Congress to help them "make a decision as to whether they will or will not approve a tax increase in 1968."

Action on a tax bill is a legislative matter which cannot be delayed without undue and unacceptable risk to the Nation's economic and financial structure. We should not wait any longer.

This is a "right now" matter.

#### *Consequences of Inaction*

A tax increase is necessary to prevent skyrocketing of interest rates. This necessity goes beyond damage to our domestic economy such as, for example, putting a pistol to the head of our housing industry now in process of a needed recovery.

A continued failure by Congress to act decisively may reverse the trend towards lower interest rates in Europe, a trend which began so successfully earlier this year. If those rates begin to rise sharply, they will surely threaten the healthy growth of the free world economy.

Confidence in the dollar and the gold exchange standard—the basis of our international monetary system—depends on the ability of the U.S. Government to act responsibly. There is a widely held feeling in financial circles at home and abroad that a reduction in our budget deficit by reducing expenditures and a tax increase in the United States are essential elements of responsible financial policy. I do not need to remind you of the most recent signs of disturbance in international financial conditions. The British devaluation puts the dollar in the front line. It calls for responsible action that will maintain full confidence in the stability and strength of the dollar and of the U.S. economy.

But there is another important reason to move ahead with the tax proposal—the grave risk of mounting inflation, another disruptive inventory cycle, a deterioration in our balance of payments, and of a return to the old pattern of "boom and bust."

No course of preventive action can be effective without tax action—now.

I have been encouraged by recent public statements on the tax question by the two Senate leaders, Senator Mansfield and Senator Dirksen. For that reason I welcomed your statement on October 24 and an earlier one by your colleague on the Finance Committee, Senator Smathers.

#### *A New Proposal*

Upon careful reflection it appears that once again it is up to the Administration to make another effort to break the deadlock between the spending and taxing powers of the Congress.

Accordingly, we have prepared a plan which combines the President's tax proposals with a statutory provision embodying a program of realistic expenditure reductions.



This package would result in a reduction of the administrative budget deficit in fiscal 1968 by about \$11 billion and would relieve the credit markets of that much anticipated demand over the next 7 months.

There has been much misunderstanding about a key element in the program—the tax surcharge on both individual and corporate incomes. Its impact on the individual taxpayer is modest—about one penny on a dollar of income. For those in the lower brackets, no tax increase at all.

In short, this bill would bring our deficit into manageable proportions. It would take much of the pressure off the credit markets and interest rates. It would enable the Federal Government to put money into the credit market in the first half of calendar 1968 instead of taking it out. It would give additional confidence in financial markets here and abroad in the dollar and the U.S. economy.

I believe this proposal can be readily considered and processed by Congress in the normal course of business during this session.

As you know, the President in his meeting Monday with the bipartisan leadership of the Congress and the appropriate committees appealed for favorable action on this legislative package of expenditure reduction and tax increase.

I have requested Chairman Mills to convene the House Ways and Means Committee to consider this legislative plan and he has called a meeting for Wednesday, November 29, at 10 a.m.

Of course, action by that committee and the House Appropriations Committee on these two key elements in the package must be the first step in the legislative process. However, the Director of the Budget and I stand ready to appear before the Senate Finance Committee and the Senate Appropriations Committee to explain these proposals on the necessity for prompt and favorable action.

I appreciate your letter. I am grateful for your thoughtful approach to a problem of great importance to our country, a problem which, as you say, transcends the "political aspects" of the decision.

Sincerely yours,

HENRY H. FOWLER.

**Exhibit 23.—Statement by Secretary Fowler, November 29, 1967, before the House Committee on Ways and Means, on the President's proposals for an income tax increase and for expenditure reduction and control for the fiscal year 1968**

I am here today to present the Administration's specific recommendations, in the words of your resolution of October 3, for "an understanding between the President and the Congress on a means of implementing more effective expenditure reduction and controls" as a corollary to the President's tax increase proposals.

Permit me to appeal to you on both an official and personal basis to report promptly and favorably a bill to the House embodying these recommendations.

I have appeared before this Committee many times in the last 6 years. We have faced many situations together. I am proud of the record of fiscal initiative, flexibility and responsibility we have built together with beneficial results to the nation's economy.

Never have we been confronted by a fiscal problem which, in my judgment, was more decisive for our country and the free world. Never have I been more convinced of the appropriate course of action to meet the problem.

It is my deep-seated, personal conviction, which I wish to stress with all of the earnestness at my command, that favorable action by the Congress on the proposals to be placed before you cannot be further deferred without undue and unacceptable risk to the nation's economic and financial structure and the international monetary system. We should not wait any longer. Delay can be as damaging as defeat. It is unthinkable to me to allow this session of Congress to conclude without an all-out effort by all responsible forces to enact into law the proposals to be presented today.

To be specific, I am submitting our recommendations in the form of a bill. This bill has two titles—one embodying the President's tax increase proposals; the second presenting a specific statutory plan and provision for expenditure reduction and control for the fiscal year 1968.

*The prompt enactment of this proposal at this session of Congress would:*

- Reduce the deficit in the Administrative budget by more than \$11 billion.
- Bring the currently estimated deficit from a range upwards of \$25 billion to below \$14 billion.

—Reverse the trend toward increased deficit financing which began with our increased participation in hostilities in Southeast Asia in the fiscal year 1966.

—Take a giant step in providing the confidence and stability in financial markets here and abroad which is based on the strength of the dollar and the U.S. economy.

—Reduce appreciably the most important source of pressure on our credit markets: the huge overhang of Federal borrowing which steadily moves up in interest despite an easy monetary policy.

—Remove the threat to our housing industry which is in the process of a needed recovery.

—Remove the risk of a credit crunch that will deprive States and local governments and small business of ready access to credits.

—Reverse the trend from a creeping to an accelerating inflation and turn the economy back toward price stability and wage changes more closely related to increased productivity.

—Halt movement toward another disruptive inventory cycle.

—Prevent our returning to the old pattern of "boom and bust."

—Protect, maintain and expand our trade surplus which is the mainstay of our balance of payments position and which is vitally important to the preservation of international confidence in the dollar.

When I appeared before this committee on August 14,<sup>1</sup> I presented these basic overall reasons which had led us to the conclusion that the prompt enactment of the President's fiscal program—tax increases joined with expenditure reductions—was the "sound, fair and fiscally responsible choice of the alternatives open to this committee, the Congress, and the American people."

Developments since August 14 serve to confirm those overall reasons advanced on that day and underscore the urgency of the Administration's request for action. (A Supplementary Statement summarizing the intervening economic and financial developments supporting these overall reasons is attached for the convenience of the committee.)

## TWO NEW REASONS FOR PROMPT ACTION

But two significant reasons, not present then, make the prompt adoption of proposals along the lines of those in the bill before you an inescapable responsibility of the Congress.

The first reason is that the devaluation of the British pound last Saturday a week, with the ensuing disturbances in the gold and financial markets, calls for prompt and special measures to protect the dollar and the international monetary system. Dealing decisively with our budget deficit has the highest priority.

We must recognize that the gold exchange standard which is the basis of the international trade and payments system on which world trade and prosperity has been based since World War II is being tested, and tested very seriously, by those who speculate, by those who are fearful, and by some in official positions who prefer a different system.

We must recognize that this nation's political, military, diplomatic, and commercial position outside our borders, and, with it, our national security, depends in large measure on the maintenance of financial stability in the free world.

We must recognize the need to take steps designed to assure confidence and stability in financial markets here and abroad which depend on a sound dollar and a prosperous, stable U.S. economy.

We must recognize, in short, that the dramatic international financial events of the past 2 weeks underline more forcefully than could any rhetoric and argumentation on my part the high responsibility that we bear for the maintenance of a stable international economic system.

There are two means by which we can preserve these stakes. First, by practicing multilateral financial cooperation with other leading financial nations in the International Monetary Fund and other related multilateral economic and financial institutions. Second, by maintaining a strong dollar through positive decisive action to reverse the current trend to increasing deficits in our budget and our balance of payments.

The sterling devaluation—even though it was felt necessary by the United Kingdom and is being supported by all the major countries of the world—is a shock to markets, domestic and international. The dollar is basically strong, and by reaffirming our determination to buy and sell gold at \$35 an ounce, we are

<sup>1</sup> See exhibit 20.

maintaining the system of fixed exchange rates in which world trade has flourished.

But—even before a sterling devaluation—delay and inaction on taxes and on diminishing our prospective deficit was weakening confidence in the dollar and the gold exchange standard. These are the foundations of the international monetary system.

The present situation makes it even more imperative that we insure the strength of the dollar by insuring the strength of the U.S. economy.

Make no mistake about it—confidence in the dollar and the international monetary system depends on the ability and determination of the U.S. Government to act responsibly.

There is a widely held feeling in financial circles at home and abroad that a meaningful reduction in our budget deficit by reducing expenditures and a tax increase is an essential element of responsible financial policy.

The second new reason for prompt adoption of the proposals presented is the clear and evident truth that only by the passage of this type of measure can the U.S. Government substantially reduce the budget deficit and keep this nation on the course of fiscal responsibility.

There were some in the Congress in August who would have met the challenge of the deficit by a temporary increase plus some minor economies; there were some who would rely on massive, long-range economies without a tax increase or a minor and belated one; there were some who wanted a specific program of expenditure reduction and controls, balanced with a meaningful but temporary tax increase; and there were some who wanted neither a tax increase nor economies, following a "the sky's the limit" policy as far as deficit financing is concerned.

It seems high time for the first three groups who are in agreement on the need to reduce the deficit to pool their forces to take decisive action, rather than by inaction and delay forfeit the fiscal responsibility of this Congress.

In August when the President reported a prospective deficit of \$29 billion only three of the 14 appropriation bills for fiscal 1968 had been enacted. The President, in his message, urged "the Congress to exercise the utmost restraint and responsibility in the legislative decisions which are to come."

As of today, the Congress has passed all but two of the appropriation bills for fiscal 1968.

Both the House and Senate, therefore, have taken legislative action in the normal fashion dealing with expenditures in the face of this deficit.

The Chairman of the House Appropriations Committee has stated that congressional action taken and anticipated in the traditional process is likely to reduce new spending authority proposed in the budget by up to \$6 billion—thereby reducing actual expenditures this year, next year and, in some cases, in years to follow, by that total.

As a result of appropriation actions to date (amounting to appropriation reductions of \$4.5 billion) actual expenditures in the form of cash outlays in fiscal 1968 will be reduced by only about \$1.5 billion because much of the appropriation action affected spending in future years.

*Therefore, it is clear to all who would exercise any realism that the deficit for fiscal 1968 will not be reduced sufficiently by these actions. Both larger expenditure reductions and a substantial tax increase are required to reduce the deficit to manageable proportions.*

It is equally clear that the best way for Congress and the Administration to join together in a combined effort reflecting the will and decision of both branches to reduce meaningfully this deficit is to enact the President's tax proposals, and special legislation that will insure additional expenditure reduction.

That is the plan before you.

#### BACKGROUND OF PLAN

In January the President recommended that a temporary tax increase in the form of a 6 percent surcharge be adopted in the summer of this year as a part of the fiscal 1968 budget to help finance the increased costs of the war. The level and timing of that recommendation were based on the anticipated course of the economy as the facts then in hand indicated.

The President reviewed that recommendation last summer in the light of both the outlook for increased expenditures and reduced revenues and the economic and financial situation that then existed and the expectations for the months ahead.



He concluded that the situation called, as it did before, for a tax increase. But in view of the substantial increase in the prospective deficit he concluded that his January tax proposals should be enlarged and a determined effort inaugurated to reduce controllable expenditures in the January Budget. In his Tax Message of August 3, he recommended a ten percent surcharge and continuation of expiring excise taxes. Moreover, that Message contained a fiscal program for reducing the prospective deficit by combining a tax increase and expenditure reduction and control.

As you will recall, in his Tax Message the President declared that to accept the prospective deficit and totally finance it "by additional borrowing, which itself would drive up interest rates \* \* \* would be fiscally and financially irresponsible under present conditions." He posed a second alternative, namely, that "the deficit could be reduced by regularly controlling expenditures, raising as much money as possible through increased taxes, and then borrowing the difference." He declared the second alternative "is the only way to maintain a strong and healthy economy." Accordingly, he presented for "the judgment and action" of the Congress a fiscal program with two essential elements:

—"Expenditure restraint to which this Administration is committed and which I urge upon the Congress", and

—"Tax measures to increase our revenues."

With most of the appropriation bills still pending before the Congress, the President urged "The Congress to exercise the utmost restraint and responsibility in the legislative decisions which are to come and to make every effort not to exceed the January Budget estimates."

The President in his message also noted that the Congress was considering a bill which would raise civilian and military pay by more than \$1 billion above the Administration's pay proposal. The Congress acceded to his persistent urging that proposals for the extra \$1 billion pay raise above his Budget not be adopted and, in fact, the pay scale for this fiscal year exceeds the President's budget by only a small amount.

For his part the President pledged to the country and the Congress that he would make every possible expenditure reduction—civilian and military—in the Budget submitted last January, short of jeopardizing the nation's security and well being.

He stated that as Congress completes each appropriation bill affecting fiscal 1968 expenditures "we will examine at once very, very carefully" the results of those actions and "determine where, how and by how much expenditures under these appropriations can be reduced."

Moreover, following the presentation of his message the President invited every Democrat in the House of Representatives and at least 50 Republicans to meetings in which he personally described the serious problems presented by the prospective deficit without a tax increase and the reduction of expenditures.

An accurate contemporary picture of the President's program to reduce the prospective \$29 billion deficit described in his Message by combining expenditure reduction and control with a tax increase may be obtained from the following series of excerpts in his press briefing on the Tax Message on August 3:

"What are we going to do about the \$29 billion? We hope, first, that we can take \$1 billion off here by the pay bill if the Congress will stay with the budget estimates, and we so recommend.

"We hope we can take \$2 billion more off by giving us the authority to sell \$2 billion in participation certificates. \* \* \*

"Under that tax bill, that 10 percent surcharge that expires in 1969 or when the Vietnam problem is over with, plus the extension of the excises due to expire next April—and they will give you the details—that will raise \$7.4 billion, so that will give us \$10.4 billion if we get everything that we are asking for, \* \* \*

"Take the \$10.4 billion from your \$29 billion. That gives you an \$18.6 billion. Then we only have three appropriation bills. We expect to get another 10 or 12, probably 12 more. We will take each one of those 15 and see what we can cut out of there. \* \* \*

"Whatever we can squeeze out will be deducted from the \$18 billion. It could be as much as \$4 billion. The deficit will likely be somewhere in the area of \$14 billion to \$18 billion, depending on the appropriations. \* \* \*

The need for combining expenditure reduction with a tax increase in order to deal adequately with the budget deficit was stressed in numerous statements by the President and on August 14 before this committee by me and the Director of the Budget.



Testimony was taken from representatives of a number of interested business, financial, and labor organizations, and leading academic economists and experienced leaders in the field of business and finance. A tax increase was opposed by only one economist, a couple of businessmen and only one business organization. The others strongly urged the enactment of a meaningful tax increase. Many of the proponents of a tax increase urged that it be combined with expenditure reduction and control.

Since the hearings concluded, the one business organization that presented testimony in opposition to a tax increase, the U.S. Chamber of Commerce, has reversed its position and announced publicly as of November 2: "Following a commitment by the Administration to a program of expenditure reduction, the Chamber will support an across-the-board temporary tax increase."

In the executive sessions of the committee, following the conclusion of the public hearings, I expressed the hope that we could find some procedure for dealing in a combined fashion with the two aspects of the proposed fiscal program because I thought it was primarily a procedural problem. The task confronting us was how, in terms of specific commitments, pledges, provisions, statements or procedures, we could achieve the common result most of us wished of combining expenditure reduction and control with a tax increase.

It was against this background that I stressed publicly in my remarks at the National Press Club on September 21 that there were "various provisions in the law or statements in the House Committee Report that could be devised to protect the position of the House in any final insistence its members may require on expenditure policy as a prerequisite to voting a tax increase."

In accordance with that view I prepared four procedural plans and obtained the President's approval to present to the Committee as suggested ways in which to accomplish the desired linkage between expenditure reduction and the tax increase. I had these plans ready to present to the Committee when it decided instead to put aside the tax proposal on October 3.

With the now detailed impact of congressional appropriation action, the analysis of the appropriations picture that emerges from this action, and the administrative review by Departments and agencies conducted at the President's instructions referred to in his August 3 message, we have been able to develop a plan which we feel is specific, feasible, and should be acceptable.

### THE PLAN

The plan for implementing significant expenditure reductions and obtaining more effective expenditure control as a corollary to the tax increase proposal is specific. It is a statutory plan. Its details are contained in the proposed bill which I am submitting with this statement. That bill has two parts:

*Title I contains the proposal for a tax increase.*—It conforms to the proposals submitted to you on August 15 in the draft bill you requested. It includes the 10-percent surcharge, effective July 1, 1967, for corporations and October 1, 1967, for individuals; an acceleration of the time for payment of corporate estimated taxes; and postponement of the rate reductions in the excise taxes on automobiles and telephone service scheduled for April 1, 1968.

In the case of individuals, the surcharge for 1967 will amount to only 2½ percent of their 1967 tax. Since it will not be feasible to collect any of this increased 1967 liability through withholding, its effect will be through the final payments made in 1968 on account of 1967 tax liabilities. We estimate that for about two-thirds of individual taxpayers subject to the surcharge, it will be reflected through reduced refunds in 1968 rather than by any requirement for additional payments.

In the case of corporations, the bill includes a provision which will insure that every corporation will have at least the normal 2½ months after the surcharge is enacted in which to file their 1967 tax return and pay their surcharge for 1967. This is essentially the same procedure that was followed with respect to the 1951 tax increase, which was enacted approximately 7 months after its effective date.

*Title II represents a specific, statutory plan for expenditure reduction for fiscal year 1968.*—It involves a specific formula which would be applicable to each Department and agency of the Government. It involves reductions in both nondefense expenditures and in non-Vietnam defense expenditures. It involves reductions in both payroll expenses and in nonpayroll expenses. It not only incor-

porates the reductions which have already been achieved through the appropriation bills. It *goes beyond those reductions*.

The plan calls for a reduction in total obligational authority for the fiscal year 1968 for each civilian Department or agency of at least the following combined sum:

—A 2-percent reduction in the January budget estimated for personnel compensation and benefits, plus

—a 10-percent reduction in such estimate for controllable programs other than personnel compensation and benefits.

These percentage reductions in obligational authority do not extend to those items described in the Budget as uncontrollable.

For the Defense Department, the reduction is 10 percent of the new obligational authority requested in the January Budget, excluding special Vietnam costs.

I have said that the reductions for each Department and agency shall be at least the above amounts. If for any Department or agency Congress in the appropriation bills has reduced the obligational authority below the reduction that would be achieved through the formula, then the lower appropriation for the Department shall prevail.

The application of this plan will apply to the total controllable obligations of each Department and Agency. Each Department and Agency will therefore be required to examine its individual programs and activities and to apply these reductions to the lowest priority items.

### **Fiscal impact of the plan**

The Congress has to date reduced the obligational authority requested by the President in January by roughly \$4.5 billion. Applying the 2- to 10-percent formula in combination with this congressional action will result in a total combined reduction of obligational authority of over \$9 billion for various programs in the January budget. This reduction in obligational authority will produce an expenditure reduction in fiscal year 1968 of over \$4 billion. The \$4 billion expenditure reduction will be almost equally divided between defense and non-defense expenditures.

Let me sum up how this plan, and the bill, will affect the fiscal 1968 deficit. The tax proposals will increase fiscal 1968 revenues by \$7.4 billion. The expenditure reduction plan will cut fiscal 1968 expenditures \$4 billion. The combined total reduction of the deficit is thus \$11½ billion.

We said on August 14 that the fiscal year 1968 deficit under certain contingencies could amount to about \$29 billion and that we were desirous of reducing that presumptive deficit to a range of \$14 billion to \$18 billion. Since then we have successfully averted two of these contingencies, the likelihood of a \$1 billion higher payroll increase and a \$2 billion reduction in authority for sales of participation certificates.

Other changes in expenditure estimates have also occurred since our August testimony, which Director Schultze will explain. But taken all together, passage of the proposals before you should keep the deficit close to the lower end of the \$14 billion–\$18 billion range which was our target in August.

The allocation of national resources to Federal programs has always involved a cooperative effort between the Congress and the President—the President proposes and the Congress disposes. The President is most anxious to cooperate with the Congress in developing a meaningful statutory package of fiscal restraint. The plan that we have before you today is our best answer to resolving the procedural dilemma that has confronted all of us since August 14.

Director Schultze will further describe the operations of this plan.

### **A TASK FORCE TO STUDY FEDERAL AGENCIES**

In addition, the President is prepared to establish a special bipartisan Task Force of outstanding Americans to take a look at long range Federal program priorities. The Task Force would examine:

(1) The effectiveness of each such program or activity in the context of its present and projected costs;

(2) Whether and at what level the program or activity should be continued; and

(3) The relative priority it should be assigned in the allocation of Federal funds.

## ACTION ON THE PLAN

Of course, the procedure by which this committee and the other committees concerned—the House Appropriations Committee and the House Rules Committee—move this legislation to the floor, is not for me to suggest. That is a matter for the leadership of these committees and the House to determine.

However, the precedent comes to mind of the handling of the highway legislation which is of joint concern to the House Public Works Committee and the House Ways and Means Committee.

Whatever procedure is chosen, I ask only that Congress act promptly. For the time for action is now.

Undoubtedly each committee may find it desirable to make changes in the title of the proposed law which is in its particular jurisdiction. The Administration will be flexible in its reactions to any changes provided they do not thwart the primary objective—the enactment of a law prescribing a combined package of expenditure reduction and control and a timely and meaningful tax increase that will reduce the budget deficit for fiscal 1968 to manageable proportions.

For example, Title II is our recommendation on expenditure reduction and control. It is based on all of the discussions the President, the Director of the Budget and I have had with the leadership of both Houses, members of the Appropriations Committee and other informed persons. It represents our best judgment of what is appropriate under all the circumstances.

If there are those who can persuade the House Appropriations Committee or the Senate or the Congress to accept a larger measure of reduced expenditures by changing the percentage figures in Title II of the proposed bill, let them proceed. If a law providing deeper cuts should be passed by the Congress, I can assure you that the President will give it the most sympathetic consideration.

The Director of the Budget and I will be at the disposal of the other committees ready to make a presentation, answer questions, or supply information on these proposals. We will try to cooperate in every way. And I am sure that Chairman Martin will be available.

## CONCLUSION

Virtually every responsible businessman and economist, every fiscal advisor to the President, and the Chairman of the Federal Reserve Board, have again and again stressed the urgent need for a tax increase coupled with a program of expenditure reduction.

The President's proposal has been before this Committee since early August. And today, in the Administration's recommendation, we have tried to go one step further in response to your request. Now, a specific formula for expenditure control is written into the same law providing for increased taxes.

That tax increase, I might add, is modest by every standard. It averages about one penny on the dollar for individuals. And millions of Americans in the lower brackets will not be affected by the surcharge at all.

With the overriding necessity to support our fighting men in Vietnam, to keep our economy prosperous and our dollar sound, we seek only what the situation urgently requires.

We seek only to ask the American taxpayer to return temporarily to his Government less than half of the \$24 billion in tax cuts which the President recommended and the Congress approved over the past 4 years.

That, I believe, is a small price to pay and a small burden to bear to help keep our Nation on a sound fiscal course and to provide responsible financing for the arms and equipment American soldiers in Vietnam must have for their missions and to protect their lives.

A higher tax is unpleasant. Reducing or postponing less essential expenditures in an already tight budget is unpleasant. But far worse are the drastic consequences to every American which will flow from inaction and delay—the higher, crueler, and unrepeatable tax of inflation, weakened confidence in the dollar, brutally high interest rates, and the risk of a return to the old cycle of boom and bust.

Time does not stand still. We dare not lose the opportunity—and the obligation—to join together in responsible fiscal action. That is what I have proposed here today.

The eyes of the world are on this Congress. There is much at stake. Now the issue is squarely up to you.



SUPPLEMENTARY STATEMENT OF THE SECRETARY OF THE TREASURY BEFORE THE HOUSE WAYS AND MEANS COMMITTEE,  
NOVEMBER 29, 1967

The purpose of this supplementary statement is to review events relating to the general economy, our money and credit markets, and our balance of payments, as they have developed since August 14 when Chairman Ackley, Director Schultz, and I appeared before this Committee.

At that time hard facts and a careful appraisal of the outlook were presented to you, and they strongly supported the conclusion that enactment of the fiscal program recommended by the President was urgently needed. Since that time events have only served to reinforce the necessity for such immediate fiscal action.

### The general economy

First as to the general economy, in his testimony to this committee on August 14, Chairman Ackley presented a careful appraisal of the outlook which led to "the verdict of a buoyant economy in which the pursuit of a highly stimulative fiscal policy would be inappropriate—indeed, perilous." He went on: "I have far more confidence in this overall judgment than in any quantification I can offer of just how fast the economy is likely to advance and just where the gains will take place."

At the same time, Chairman Ackley outlined in some detail the Council's numerical projections for the period from the second to the fourth quarter of 1967, assuming "no major disruptions from strikes or developments abroad" and no congressional action on taxes within 1967. After surveying the various components of national expenditures, Chairman Ackley concluded, "Even at the lower end of this range, the increase in GNP [from the second to the fourth quarter] would be \$29 billion. At the upper end, the \$35 billion advance would nearly match the hectic pace of gain between the third quarter of 1965 and the first quarter of 1966. If unchecked, the pace of advance would accelerate in the first half of 1968 \* \* \*"

Developments in the past 3 months have validated Mr. Ackley's appraisal. Even though strikes have had a major impact in holding economic activity down, the increase in GNP from the second to the fourth quarters should still lie within the range of \$29 billion to \$35 billion that Mr. Ackley specified. In the absence of major strike activity, the rate of advance might well be exceeding the upper end of the range.

In light of the strong \$16 billion advance registered in the third quarter and the available evidence on the performance of the economy so far in the fourth quarter, the pattern as well as the total magnitude of the gain is matching closely with Mr. Ackley's earlier assessment. In several areas, the projections of mid-August remain realistic estimates today: this is the case for the \$4½ billion increase in spending by State and local governments that Mr. Ackley projected, the range of \$3 billion to \$6 billion for the rise in Federal Government outlays, and the \$1 billion prospective increase in plant and equipment spending. Needless to say, however, some revisions are in order. The gratifying rebound in homebuilding has exceeded expectations and now seems headed toward a rise of about \$4½ billion over the two-quarter interval rather than the \$3½ billion that was projected in August. And the earlier assessment that inventory investment would recover by \$1 billion to \$2 billion may also turn out to be conservative, even with auto stocks depressed by strikes.

On the other hand, consumer spending has risen somewhat less rapidly than expected. It will most likely fall short of the \$16 billion to \$18 billion range that Mr. Ackley outlined—in large part, but not entirely, because of the strike-induced shortfall in auto sales. Consumer spending is the one spot that has not firmed up markedly in recent months. If it had, we would already be riding a runaway economy. As it is, the smaller advances in the consumer area have merely kept the overall pace within safe speed limits. While nobody can predict the consumer's mood with any confidence, it would be most precarious to bet that the saving rate will rise further in the months ahead.

The other major recent development which deserves some comment is the rise in the unemployment rate during September and October to a level of 4.3 percent of the civilian labor force. This movement is clearly associated with the phenomenal labor force growth of recent months rather than with any notable surprises in the course of employment. The behavior of the labor force has been puzzling through 1967. In the early months of the year, when employment was



stagnant and there was marked softening in key labor market indicators (like insured unemployment, factory layoffs, and help-wanted advertising), the labor force did not grow and hence the overall unemployment rate held steady. More recently, employment has been performing well and the other indicators have strengthened consistently, but the labor force has spurted. From May to October, the seasonally adjusted labor force grew by an enormous 1.8 million, largely concentrated among adult females and younger workers. Since the growth of employment could not keep pace, the overall unemployment rate rose, reflecting marked increases among women and teenagers. The spurt in the labor force does not have significant implications for demand—output, employment, or spending. It does tell us something about supply, namely that we have some extra margin in the availability of female and teenage workers. But since there is virtually no margin of slack in the availability of adult male workers, we are highly vulnerable to inflationary pressures in the labor market.

The general assessment of economic developments in recent months has been immensely complicated by widespread strike activity. Strikes have dominated the performance of our key measures of manufacturing activity—industrial production, orders, and shipments. It is impossible precisely to disentangle strike impacts and trace their ramifications forward to retail sales and backward to supplier industries. A few facts and estimates are nevertheless worth noting. In both September and October, major strikes directly held about 300,000 workers off their jobs—far exceeding any monthly figures in 3 years. Trade publications in the auto industry estimate that strike activity so far has cut back output by 362,000 cars in the current quarter. This means a dent of more than \$4 billion (annual rate) in this quarter's GNP, following a \$2 billion loss in the third quarter. The continued rise of overall backlogs in durable goods manufacturing in September and October also points to the dominance of strikes in curbing both orders and shipments.

If there are no further strikes in the automobile industry, a considerable catch-up of output will be forthcoming early in 1968. The swing reflecting the strike and its aftermath could easily exceed \$6 billion (annual rate) from fourth to first quarter. An appraisal of the near-term outlook must also recognize the likelihood that production and accumulation of steel will soon begin to be influenced by the anticipation of next summer's labor negotiations in that industry. One might hope that any enormous rises in sales and output in the opening months of 1968 would be properly interpreted and discounted by the business and financial community as reflecting strike make-ups and anticipations. But most likely that will not be the case. Just as the recent strikes have temporarily calmed down the boomy atmosphere that was beginning to emerge late this summer, so the aftermath could contribute to a dangerously inflationary fervor early in 1968. If the strikes have given us a little more time on the economic front, they have also made it more urgent than ever that fiscal policy should be moderating the pace of advance right at the beginning of 1968.

This is the season when economists throughout the land are sizing up the economic outlook for the year ahead. Among private forecasters, a consensus view is shaping up; it places the GNP for 1968 at \$840 billion or a little higher, assuming a tax increase. It seems significant, in itself, that the overwhelming majority of private forecasters are assuming the prompt enactment of a surcharge on income taxes for 1968. They generally regard fiscal restraint as essential to the health of our economic and financial system and have confidence that this need will be met through our democratic process.

With a tax increase, the standard forecast calls for a rise in GNP of a little more than \$55 billion in 1968. Of this gain of 7 percent or more, about 3 percent is typically expected to represent price increase and the remaining 3½ percent to 4½ percent a gain in real output. The unemployment rate is usually projected at between 3¼ percent to 4 percent.

All-in-all, this standard private forecast—assuming a tax increase—represents a fairly reassuring picture. Our real output would grow in pace with capacity. To be sure, prices would be increasing considerably faster than we like, but primarily because of pressures on costs that were initially generated during late 1965 and 1966, and not because of new demand pressures straining our capacity. If these same forecasters were obliged to reassess the economic outlook assuming no tax increase, they would see potentially serious trouble with respect to prices, interest rates, credit availability, our international trade position, and the health of our homebuilding industry.

There are good reasons to be skeptical about economic forecasts, but there is simply no way to avoid or ignore them. The decisions of this committee are bound

to affect the economy in 1968. Failure to enact the surcharge would be a decision to maintain a highly stimulative fiscal policy with a large deficit at full employment. This would be appropriate only if private demand could be counted on to be especially weak next year—if the recent private surveys pointing to rising business investment are all too high, if housing demand were about to level off abruptly, if the consumer saving rate were going to rise to unprecedented heights. No expert in the world can give Congress a guarantee that any—or all—of these things will not happen. But no prudent man would wish to gamble that they will take place.

Mr. Ackley concluded in August: "There is nothing to suggest that a powerful stimulus is called for in order to support healthy economic growth. On the contrary, the maintenance of such stimulus is most likely to undermine our prospects for prosperity." That judgment is every bit as valid today as it was then, and it is shared by the overwhelming majority of informed opinion throughout the land.

### Money and credit

Turning to the money and credit markets, on August 14 we stated our expectations of an undesirable rise in interest rates and an unhealthy condition in those markets if a tax increase were not forthcoming. The facts since August 14 are:

—Interest rates declined briefly on the announcement of the President's tax proposals, but it was only a short-lived decline because the market soon concluded that the tax proposals would encounter delays; in the meantime, the market appraised quite soberly the mounting evidence of excessive credit demands that would emerge in the absence of prompt and effective action on taxes and expenditures.

—Thus interest rates moved higher, across-the-board, from early August onward. A particularly steep rise occurred in rates on Treasury securities during October, following the temporary shelving of active consideration of the tax proposals by this Committee.

Since early August the rate on 3-month Treasury bills has risen by three-fourths of one percent. Long-term Treasury bonds are up more than  $\frac{1}{2}$  percent. Yields on new high-grade corporate issues are up more than  $\frac{3}{4}$  of 1 percent. Yields on State and local government issues are up nearly  $\frac{1}{2}$  percent.

These increases have proceeded from a level of interest rates that was already high—generally approaching the 40-year highs that had been reached in August and September of 1966. By now, because of the further increases the high points of 1966 have been reached and surpassed, except in the relatively short-term maturities. For example, in the case of high-grade corporate bonds, the latest rate level of 6.99 percent compares with the high of 6.35 percent in August–September 1966.

These increases in interest rates, moreover, have taken place despite continued growth in the money supply and bank credit. The money supply has risen at an annual rate of 6.8 percent thus far in 1967 in contrast to increases of 2.2 percent in all of 1966 and 4.7 percent in 1965. Bank credit has grown at an annual rate of 12.5 percent for the first 10 months in 1967 compared with increases of 5.7 percent in 1966 and 10.2 percent in 1965.

Rather than a stringency on supply, recent interest rate increases reflect very strong demands for credit from virtually every sector of the economy. An over-hanging fear of excessive Federal Government borrowing is a key factor.

Last year corporations borrowed a record \$17.6 billion in the capital markets. This year, in just the first 10 months, they have already borrowed \$20.3 billion. The 10-month period is running about 35 percent ahead of the comparable months of 1966.

In my presentation to this committee last August, I cited a similar comparison but at that time the margin of increase of corporate borrowing over a year ago—applying then to the first 7 months of the year—was 23 percent rather than 35 percent. That is one measure of the current pressures on the capital markets.

There is a similar story to tell for State and local governments. Last year these governmental units borrowed \$11.3 billion in the capital markets—a record amount up to that time. That figure has already been surpassed in just the first 10 months of this year, with borrowing of \$11.9 billion. This is 27 percent ahead of the amount borrowed in the first 10 months of 1966. It maintains about the same margin of increase that I referred to in my statement to this committee on August 14.

The major change from a year ago, however, is in the area of Federal Government borrowing. Let me shift here to talk about fiscal years rather than calendar years because this points up the contrast more distinctly. In the fiscal year that ended last June 30, the Federal Government had an administrative budget deficit of \$9.9 billion. In addition to financing that deficit there were net borrowings by Federal agencies and sales of participation certificates in federally owned financial assets, which also exerted demand on the credit markets. On the other side substantial financing was provided through net purchases of securities by Government investment accounts, purchases by the Federal Reserve System, and a reduction over the year in the Treasury's cash balance. After netting out all of these factors, the Federal sector did not make a net demand on the private credit markets but rather repaid about \$6 billion to these markets.

In the current fiscal year the Federal sector will instead be making a significant net demand on the private credit markets. It will be a substantial demand even with the benefit of the proposed tax surcharge and tight restraints on expenditures. Without these fiscal constraints, it will be a clearly excessive demand—far more than the credit markets would be able to handle without drastic cuts in the availability of funds to meet private credit demands, which are also substantial.

The rough orders of magnitude run something like this: given the President's program of fiscal restraint, applying to both the tax and expenditure sides, the Federal sector's net credit demands on the private markets in this fiscal year might be held to the neighborhood of \$12 billion or \$13 billion. Without the tax rise and spending restraints, the net Federal credit demand could soar above \$22 billion.

In the current half year period, which covers the portion of the year when credit demands are seasonally heavy, the Federal sector's net credit demands on the private market are working out to about \$16 billion. That compares with net credit demands of roughly \$5 billion each in the July–December periods of 1964, 1965, and 1966.

A key question, however, is what the Federal sector's net demands will be in the January–June 1968 period, and beyond. With a program of rigorous fiscal restraint it will be possible to make some seasonal repayments to the market during the January–June period in 1968. It will not be as large as was the \$11 billion repayment in January–June 1967, but it could fall somewhere between the \$1.9 billion repayment of January–June 1966 and the \$4.7 billion repayment of January–June 1965.

Without the proposed tax measures, however, and with only modest success in restraining the level of Federal expenditures, it would be necessary to press an additional credit demand of at least \$6 billion on the markets at a time when seasonal repayment is the normal course of events. A \$6 billion net demand would contrast very sharply indeed with the \$11 billion net repayment achieved in the January–June period of 1967—an adverse swing of some \$17 billion.

This may not sound like a very large number against the background of an approximately \$800 billion annual rate of GNP. The relevant comparison, however, is not with GNP but with the annual flow of credit through our credit markets which has run roughly in the neighborhood of \$70 billion a year. In that context, a swing of \$17 billion within a half-year period—would constitute an extraordinary overload that could not be met out of anticipated levels of savings or new credit formation.

In the process of meeting excessive Federal Government demands, many private credit needs would go unmet. Home buyers, small businessmen and farmers would feel a particularly tight pinch.

Nor would it be any better a solution if one attempted to let all the credit demands be met through pumping in unlimited additions to money supply. That might produce some temporary euphoria but also some very serious problems of inflation and economic distortion that would haunt us for many years to come.

#### **Balance of payments and the dollar's world position**

Turning to the international aspects, I said in August that tax and expenditure actions are vitally important to the protection of our balance-of-payments position and to the maintenance of confidence in the dollars. This statement bears even greater emphasis now. The devaluation of sterling—considering its psychological effect of focusing the eyes of the world upon us as keepers of the



world's major currency, and also its expected economic effects on world trade and our balance-of-payments accounts—makes responsible fiscal action in the United States doubly imperative.

All of our efforts to improve our balance-of-payments position may be for naught.

—*Unless* we maintain relative price stability and cost competitiveness in the U.S. economy;

—*Unless* we resist and avert the threat of excessive demand which could damage our trade balance;

—*Unless* we play a responsible role by assuring the healthy state of our capital markets so important to the balanced workings of the international monetary system.

Statistical evidence of action or inaction by this session of Congress will be read in annals yet to be published. These indicators will reflect in the months and years ahead whether the foreign holder of dollars today is convinced about our capacity to manage our economy effectively and responsibly. Investors traditionally have been as impressed by imponderables as they have been by facts. They have seized upon our handling of the surcharge and the accompanying expenditure restraints as the measure of our capacity and our intention to act responsibly.

In a very real sense, the size of our gold reserves reflects the judgment by those abroad who now hold dollars of the ability of the United States to exercise fiscal and budgetary responsibility. We must not give them any cause for doubt of our ability or our resolve to act in a responsible and timely manner.

The delay in acting on the tax increase, with the resulting rise in interest rates here, has already caused many foreign central banks to take defensive action. This moves us away from what we were achieving through the Chequers meeting last January in England. High interest rates in the United States, due to excessive borrowing by the Government, are disturbing influences that have implications far beyond our own border.

All of us realize that the international trading game is made more competitive by the British devaluation. Obviously a part of whatever total improvement the British may achieve in their trade balance will probably be reflected in a correspondingly adverse impact on our own trade surplus. Most likely it will become apparent in our reduced exports to various world markets.

This points up the fact that any deterioration in our competitive position due to rising costs in the United States, or due to abnormally high U.S. imports because of excessive demand and capacity pressures in our domestic economy, could have the effect of diverting a substantially larger portion of the impact of the British action towards our own country and away from Europe. With Europe in a surplus position as to balance of payments, it is vital that such a shift be avoided.

The facts and trade statistics speak for themselves:

—During the 1961–64 period of substantial but clearly sound and well-balanced domestic growth, and with high rates of economic advance in Europe, our trade surplus increased almost \$2 billion—from \$4.8 billion in 1960 to \$6.7 billion in 1964.

—During the following 2 years, with accelerating domestic demand and increasing pressure on our productive capacity, and slower growth rates in Europe, the trade surplus fell—back to \$4.8 billion in 1965 and down to only \$3.7 billion last year.

—With a slower rate of growth again and less inflationary and capacity pressure in our domestic economy so far this year, our trade surplus has, despite the continued slower pace of business activity in Europe, shown significant improvement—from a last-quarter 1966 low of \$2.9 billion (annual rate) to an annual rate of \$4.4 billion for the first three quarters of this year.

This offers no cause for complacency: in fact, the developments of the months since August only accentuate the need for tax and budgetary action now.

*In summary*, then, the import of this review of developments since August 14 is clear: namely whether from the viewpoint of promoting a balanced and healthy domestic economy, or of maintaining stable and orderly conditions in our money and credit markets, or of protecting our balance of payments and the strength of the dollar in the international monetary system—the case for the recommended program of fiscal restraint becomes even more compelling today than it was last August.



**Exhibit 24.—Statement by Secretary Fowler, March 12, 1968, before the Senate Finance Committee, on H.R. 15414, the Tax Adjustment Act of 1968**

The bill before this Committee contains two parts of the President's tax recommendations. These provisions, incorporated in H.R. 15414, would:

—Extend the excise taxes on automobiles and telephone services beyond April 1 of this year, and

—Carry out our recommendations for accelerating corporate income tax payments.

The Administration is still strongly in favor of our full program which would include, in addition, a temporary 10-percent income tax surcharge.

The Ways and Means Committee took action on a bill limited to these two aspects, without waiting on further decisions.

"In view of the fact that the excise tax reductions, in the absence of this bill, would occur on April 1, and the fact that the corporate speed-up to be effective this year must occur before April 15, \* \* \*

The Report of the Committee on Ways and Means further stated that this action "is not intended to prejudice possible future action with respect to other tax recommendations which have been proposed by the administration."

On the floor of the House, Chairman Mills stated:

"Let me emphasize to the Members of the House that, in reporting this bill, the committee does not intend to foreclose possible future action on the administration's surcharge proposal. The question remains before the committee and no decision has as yet been reached."

In addition to the excise tax and corporate acceleration provisions in H.R. 15414, the President's program includes a temporary 10 percent surcharge on the income tax of individuals and corporations.

—On individuals the 10 percent surcharge would be effective April 1, 1968, and continue through June 30, 1969. The effective rate on individuals in calendar year 1968 would be 7.5 percent of their present law tax. The surcharge would not apply to about 17 million individuals whose taxable income does not rise above the second bracket.

—On corporations the surcharge would be effective January 1, 1968, and continue through June 30, 1969. This would give an effective rate of 10 percent for corporations in calendar year 1968.

The surcharge, I might emphasize, would be 10 percent of the present tax, not 10 percent of income. This is about one-half of the tax decrease for individuals enacted in 1964. While in effect, the increased tax on individuals would average about 1 percent of their income.

Speaking for the Administration, I want to emphasize in the strongest possible terms that we continue to recommend enactment of this entire program. It is as fully called for in the light of recent events as it was by events prior to January. We want to see the surcharge adopted under whatever procedures the Congress chooses to utilize. Those procedures are not for us to determine. The end result should be prompt enactment of the surcharge.

**H.R. 15414**

I turn now to the specific bill. It would raise revenues compared to present law by \$1.1 billion in fiscal year 1968 and by \$3.1 billion in fiscal year 1969. This is about one-fourth of the \$16 billion which we proposed to raise by the President's program.

The accompanying table shows the details of the revenue effects compared to existing law. You will realize, of course, that the revenue gain from excise extensions could also be described as preventing a loss of revenue that would occur if the rates were permitted to fall below rates currently in effect. Moreover, the speedup in corporate tax payments does not involve the addition of new tax liabilities but rather the more current payment of existing liabilities.

Presently the 7-percent manufacturers excise tax on automobiles is scheduled to drop as of April 1, 1968, to 2 percent and then on January 1, 1969 to 1 percent. The bill would continue the 7-percent rate to January 1, 1970, when it would be reduced to 5 percent. The bill would provide further reductions to 3 percent on January 1, 1971, to 1 percent on January 1, 1972, and repeal the tax on January 1, 1973.

The new schedule for reductions follows the pattern established in the Excise Tax Reduction Act of 1965 to limit prospective reductions at any one time to not over 2 points. This three-stage reduction program in the bill recognizes that, with anticipation by consumers of a sharp drop in the automobile excise tax

rate, there is a high likelihood they will postpone purchases of cars. This could be highly disruptive of orderly production and employment.

The House bill also goes back to the 1965 decision to make the reduction of rates effective on January 1. Reductions at this time of year should have the least disruptive effect on sales. There is usually a rush of orders for new cars in the autumn, and dealers fall behind in meeting them. Orders come in more slowly in January so if some orders are postponed from the autumn to January it is likely to involve smoother rather than more disorderly production schedules.

TABLE I.—*Estimated effect of the bill on budget receipts*

[In millions of dollars]

	Fiscal year 1968	Fiscal year 1969
Excise taxes—extension of present rates:		
Passenger automobiles.....	190	1,500
Telephone service.....	116	1,160
Total excise extensions.....	306	2,660
Proposals for corporate estimated tax payments.....	800	400
Total.....	1,106	3,060

The bill also deals with the tax on telephone service which is now 10 percent and is scheduled to be reduced to 1 percent April 1, 1968, and to be repealed on January 1, 1969. This tax would be extended at the 10-percent rate to January 1, 1970, reduced to 5 percent at that time, further reduced to 3 percent on January 1, 1971, to 1 percent on January 1, 1972, and repealed on January 1, 1973.

#### Current payment by corporations

Another part of the President's program, which is embodied in H.R. 15414, is two provisions which have the effect of placing corporations on the same basis of current tax payment that now applies to individuals.

Presently, individuals, including sole proprietors and partners, are required to pay in current quarterly payments 80 percent of their estimated tax liability. Corporations, however, need only make current quarterly payments on 70 percent of the estimated tax liability in excess of \$100,000.

The bill achieves equality between corporations and individuals in two steps:

(1) Effective with the quarterly payments due April 15, 1968, corporations will be required to make current payment on the basis of 80 percent estimates rather than 70-percent estimates.

(2) Effective with quarterly payments due April 15, 1968, corporations will take the first of five annual steps designed to eliminate the exemption from current tax payment on the first \$100,000 of estimated tax. This will be done by requiring that the 1968 current payment include 20 percent of the first \$100,000 of liability. The 1969 payments will include 40 percent of this first \$100,000 and so forth until 1972 when corporations will be on the same basis as individuals.

This change in corporate tax payment provisions will finally achieve an objective sought in a series of actions taken by the Congress dating back to 1950. The progressive steps in moving corporations toward the same payment basis applicable to individuals have been gradual so as to avoid sharp liquidity effects.

There is no reason to permit small and medium sized corporations to defer all or a substantial portion of their tax while requiring current payment by unincorporated businesses. By far the overwhelming part of small business is made up of sole proprietorships or partnerships. In 1965, of the 8.6 million businesses with net incomes, 7.9 million were sole proprietorships and partnerships or Subchapter S corporations (where taxes are paid currently by the shareholders).

A corporation with \$100,000 of tax liability, that is, one that gets full benefit of the current favoritism, would ordinarily have assets in the area of \$1 million. The striking inconsistency of the present law is implied by the fact that a moderately successful partnership or proprietorship can achieve a continuous postponement of virtually a full year's tax by the simple device of incorporating.

This measure achieves equal treatment between incorporated and unincorporated businesses by moving corporations to the basically sound system of

keeping their tax accounts current. As the House Committee Report indicates, current payment is frequently a net advantage to a business firm which might have otherwise failed to make adequate provision for tax payments.

The House bill has several technical changes regarding tax payments: it makes provision for quick refunds for corporations after the end of the year in those cases where their estimated tax payments significantly exceed their tax liability; it eliminates declarations of estimated tax by corporations, leaving this entirely to the deposit system; and it prescribes rules regarding mailing of deposits.

### The general fiscal situation

I believe it is appropriate to lay before you the general fiscal situation, as the background for this bill, and to relate that situation to the entire fiscal program of the President of which the excise recommendations and the current tax payment recommendations are a part.

The U.S. economy—a mighty engine of production and distribution—is roaring down the road. It is entering the eighth year of a recordbreaking advance, having weathered the inventory adjustment which slowed it to half speed in the first half of last year.

But the ride is neither smooth nor safe. Rising inflationary pressures and a disturbing deterioration in our international balance of payments signal a clear and present danger that the economy is overheating and running at an excessive rate of speed.

Given a high employment economy with heavy defense costs at home and abroad, some inescapable increasing costs of civilian government, and a private sector advancing on a wide front, the acceptance of enlarged deficits in the budget and the balance of payments is contrary to sound economic and financial policy—whether the wisdom is conventional or the new economics. Accordingly, the driver is trying to brake the vehicle to a safe cruising speed.

That is the meaning of the President's request last August for a substantial tax increase and a reduction in many Federal outlays for fiscal year 1968, his tough and courageous New Year's Day Balance of Payments Action Program, and the austere budget for fiscal year 1969 presented a month ago.

I want to express here a strong personal conviction. It is shared by the President, his entire Administration, the Federal Reserve Board, and the vast preponderance of expert economic and financial opinion decisionmakers here and abroad—public and private.

That conviction is that this is a year in which economic and financial policy should be directed toward reversing decisively the trend in 1967 to increasing deficits in our internal budget and our international balance of payments. We should move back toward balance in our budget and our international payments—and thereby assure a balanced economy, properly poised and positioned, to discharge our national and international responsibilities—in war or peace—at home or abroad. With this Nation engaged in a costly conflict abroad, we must act at home so as to maintain the stability of the economy and the strength of the dollar.

A continued acceptance of these twin deficits in their current proportions under the surrounding circumstances is to forsake prudence, accept intolerable risks and refuse to accept the fiscal and monetary discipline essential to the preservation of a balanced, sustained prosperity.

These observations bring us hard up against the outlook for our Federal budget which will be the subject of comments by Mr. Zwick, Director of the Budget.

I would like to add, however, a few words of my own.

I share the general concern that the totals of budget expenditures are increasing. But I must point out that this fact does not diminish the desirability of a tax increase to help finance the war in Vietnam out of current revenues rather than borrowed money.

Our annual expenditures for our efforts in Vietnam amount to about 3 percent of our gross national product. Other outlays, exclusive of social insurance trust funds, have been declining as a share of the Nation's income and output in recent years. In 1969 they stand at 13.9 percent. In the last 3 years of the 1950's they were 16 percent. In 1965 they were 14.6 percent. It is not the rise in regular budget outlays which requires a tax increase but the cost of Vietnam.

Of course, one can debate at length whether the budget outlays in the 1969 budget for controllable civilian programs should be substantially reduced. But



we must remember as we keep debating that time is still running, and every day that passes without the tax increase adds about \$33 million to the deficit.

The tax program now comes to \$16 billion over the fiscal years 1968 and 1969 and will reduce the deficit by that amount. It should be passed promptly regardless of the outcome of the long-drawn-out debate on expenditures now beginning.

No amount of debate or budget cutting that is likely to emerge is a realistic alternative to a tax increase for meeting our obligations at home and abroad in that amount.

To sum up on the budget for fiscal year 1969—it is a responsible financial plan placed on a base of expenditures for fiscal year 1968 rigidly scaled down by joint executive and congressional action as recently as December 1967. It represents a hold-down in controllable expenditures in 1969; the revenues from the requested tax increase will contribute to the reduction in the deficit, not to rising expenditures; and it does give assurance that the tax increase will be temporary and can and will be removed when hostilities in Vietnam come to an end.

We must not forget that we are a Nation involved in a war. This involvement has had its obvious and direct effect on the budget and in turn on the need for a tax increase. We cannot mistake the connection between the tax increase proposals and the costs of our efforts in Vietnam.

It is not the rise in regular budget outlays that requires a tax increase but the cost of Vietnam. The increase in budget receipts from economic growth since fiscal year 1965 would alone more than cover the increase in non-Vietnam costs. What is left to be financed is the cost of Vietnam. In the January budget this was put at about \$26 billion for fiscal year 1969, and we are asking that one-half of this be met by tax increases. Meeting part of the cost of war through tax increases rather than just through borrowing is the path of fiscal responsibility, and this path we have followed in those troubled times in the past when we found ourselves at war.

So much for the principle. I want to turn now to the more specific discussion of the immediate situation, that without tax legislation we would have a deficit of about \$22.8 billion in fiscal year 1968 and \$20.9 billion in fiscal year 1969. Permitting this level of deficit—two \$20 billion deficits back to back—would incur intolerable risks for the United States in the light of—

- Our present domestic economic conditions,
- our financial situation, and
- our balance of payments problem.

### Economic conditions

Deficits of over \$20 billion in each of fiscal year 1968 and fiscal year 1969 would involve intolerable risks of inflation in view of the current economic conditions.

During the fiscal year 1967, there was some slack in the private economy associated with a decline in inventory investment, a lower level of housing starts, and an interruption of the plant and equipment boom. Since the summer of 1967, however, these factors have been reversed, and the economy has been moving in very high gear. This is plainly evidenced by the rate of growth in output and prices in the last half of 1967 when real output grew by a 4½ percent annual rate, and the general level of prices rose at an annual rate of 3.8 percent.

It is not a question of whether some economic indicator went up “only” half a point last month or even held steady, or whether some other indicator has dipped slightly below the record high it set last month. The important thing is the level and general direction of the total economy. The economy is operating at high levels of capacity and is generating high rates of quarterly growth of GNP, \$16 billion in each of the last two quarters of 1967.

An obvious aspect of the overall economic level, in addition to the fact of sharp price increases in the last eight months, is the rate of unemployment which is the lowest it has been since the inflationary conditions of the Korean War.

If one looks at the unemployment situation, moreover, unemployment of men over 20 was 2.2 percent at the end of 1967. In the substantially full employment that existed in 1956, this rate was 3.4 percent. For 1953 when the total unemployment rate was 2.9 percent, the rate for men over 20 was 2.5 percent. What is clear is that at current levels of output we are making maximum use of our skilled work force.

What has been happening over these last 8 months is that demand has been fueled by a Federal deficit running at a rate which, without a tax bill, will bring it over \$20 billion for the year. This rate at which demand has been increasing



for the last 8 months is simply too high for an economy in which unemployment is well under 4 percent.

Our fiscal program including provisions for the revenues provided in the bill before you plus the income tax surcharge of 10 percent was designed to hold the growth of total GNP in 1968 to about \$60 billion. At that rate the increase in 1968 will be only a little lower than it has been in the last half of 1967, but we will be able to get the trend of prices under control. We will be able to enter 1969 with a declining rate of price increase and not an increasing one. A substantial increase in fiscal restraint is thus necessary to move toward price stability in 1969. If the present rate of inflation is permitted to grow, this will sow the seeds for more inflation in 1969 as wages and everything else try to catch up.

We must recognize the fact that we live in an uncertain world abroad and at home. Regardless of any international developments that might require increased Government expenditures, deficits over \$20 billion running two years in sequence do not represent fiscal responsibility.

### Financial markets

Failure to enact the President's tax program will jeopardize the financial markets. Interest rates are generally at or above the peaks reached in the financial crunch of 1966, and at that time the Federal Government's credit demands were contributing very little to credit tightness.

The heavy sales of securities by the Federal Government were a major factor in the rise in interest rates in 1967. In the last half of 1967 the Federal sector borrowed from the private sector \$18 billion compared to the more normal \$5 billion in the last half of 1964, 1965, and 1966. In the first half of 1968, even with prompt action on the President's full program, we may have to borrow up to \$5 billion whereas normally in the first half of a calendar year we are reducing the Federal debt.

Fortunately, the recent rises in interest rates have not led to the kind of large scale withdrawals of funds from savings institutions as occurred in 1966. But currently available yields on marketable securities are close to the point where a further rise could trigger significant disintermediation and loss of funds for home construction.

The anticipation of continued heavy borrowing of the Federal Government can only serve to make mortgage lenders reluctant to increase commitments for future mortgage lending. Prompt fiscal action in the form of enactment of the President's tax proposals is the best assurance of continued opportunity for home financing and construction to avoid a repetition of 1966.

The high rate of economic activity will assure a high level of private and State and local demands for credit in the months ahead. Treasury borrowing demands involved in continued deficits of over \$20 billion involve a choice between permitting a larger rate of monetary growth than we would like to see or bidding up interest rates to levels that would foreclose substantial amounts of borrowing by those borrowers most sensitive to interest rate differentials and most affected by credit availability—home builders, State and local governments, and small business.

It is clear that the magnitude of Federal credit gains in fiscal year 1969 depends critically on enactment of the President's tax program. Without the tax program budget deficits would be excessive both from the point of view of economic stabilization and credit markets. If there is no tax legislation, these borrowing needs would be about \$21 billion. H.R. 15414 would reduce them to about \$18 billion. The President's full program would reduce them to \$8 billion.

Failure to take adequate fiscal action and thereby leaving the burden of fighting inflation to monetary policy would be like enacting a special tax that would fall on home buyers, home builders and suppliers, the savings institutions, State and local governments, and small business.

### The balance of payments

Closely following the acceleration of business activity and the price inflation in our domestic economy that we have observed in the last half of 1967 has been a sharp deterioration of our international trade surplus which contributed to the return of our overall payments deficit to a critically high level. This return to a large deficit in our own international payments, combined with the British devaluation and the subsequent period of heavy gold speculation, represented a threat to the U.S. dollar and to the international monetary system as a whole requiring decisive corrective action.

Just as the tax increase is an indispensable element in our domestic financial plan for the year ahead, it is also the keystone of the balance of payments program announced by the President on January 1.

As the President said in his message to the Nation that day—and sometimes this is conveniently overlooked by those who say the direct measures are palliatives:

"The first line of defense of the dollar is the strength of the American economy.

"No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus."

Failure to take action here involves a risk both of immediate further deterioration of our trade balance and of lasting further deterioration of our competitive price position internationally. It would threaten a flood tide of imports and a loss of export markets. Too rapid a growth in economic activity in the United States, giving Americans more money to spend, would cause a more than proportionate amount going directly or indirectly into increased purchases of imported goods.

With the addition of sharp price inflation, the consequences could substantially weaken the U.S. competitive trade position.

The importance of restoration of price stability in the United States to the maintenance of a functioning international economic community is recognized in Europe as well as here.

Last December the "OECD Economic Survey of the United States" stated:

"An immediate concern of the authorities must be to avoid an excessive increase in demand, which would strengthen cost price pressures and aggravate the balance of payments problem. Given the likely strength of the expansion now developing, this can hardly be achieved without the tightening of fiscal policy proposed by the President."

### Conclusion

Mr. Chairman, when I appeared before the Ways and Means Committee last August, I warned, in general terms, that we would have an unwelcome acceleration in prices and deterioration in our balance of payments if the surcharge were not passed. If I had predicted that, in the absence of the surcharge, the general price level would rise at an annual rate of 3.8 percent during the last half of 1967, many people would have accused me of being an alarmist, and yet that is exactly how fast prices did rise.

Similarly, if I had predicted that imports would rise at an annual rate of over 16 percent and that exports would actually decline by 6 percent between the second and fourth quarters of 1967, this also would have seemed unduly pessimistic to many people, and yet that is exactly what did happen to our foreign trade.

Now, I cannot make a precise prediction as to how these or other variables will move in the next 6 months, but I do know that these rates of change are unacceptable and must be halted. The restoration of price stability in our domestic economy and the improvement in our trade position lie in enactment of the entire tax program of the President.

We face critical times. We are engaged in an expensive war. At home we face and are determined to conquer serious problems of poverty, ignorance, and urban blight. Under these circumstances failure to meet more of our budget through tax revenues involves intolerable risks for the country to run.

Why must we run these risks? Why in a period of hostilities should our country weaken itself economically and financially at home and internationally? The fact is we know how these risks can be avoided; there is no obscurity about either the problems or their solutions. We at home see the answer as does the rest of the world. The answer is to reduce the deficit by raising revenues to pay for these wartime expenditures.

The temporary tax increase will give us the fiscal strength to avoid these risks. Our people are well able to bear the burdens involved. Even after the surcharge individuals will be paying tax at significantly lower rates than the rates in effect in 1963 before the reductions of 1964 and 1965; corporations will be paying at lower effective rates than they faced in 1961 before the investment credit and depreciation reform. And the low income groups are exempt from the surcharge.

I stress the word temporary. This Administration has given ample evidence of its desire to reduce tax burdens on the American people. There is no basis for predictions that a temporary surcharge will remain in effect after the disappearance of the defense needs that give rise to it. We have a tax system which will produce a growth in GNP of about 6 percent which is consistent with an expected 4 percent to 4½ percent growth in real output. Without the pressure of military demand this will provide a large sum to meet our national goals.

I stress also that this temporary surcharge will give our domestic economy strength and stability and will not weaken us. The international monetary system on which the free world economy is based will be strengthened as the strength of the dollar is assured.

The welfare of American citizens cannot be measured merely by the smallness of the tax they pay. It rests on the purchasing power of the income they have after taxes and the value of the services they get from their Government. Our citizens will be treated badly if their tax bills are held down but they are left with accelerating inflation, climbing interest rates, an unstable boom that could end in a bust, and a weakening of the international financial system which has been the basis for Free World prosperity and development since World War II.

The Congress will serve the American people well if it pursues a wise fiscal policy of substantially reducing the prospective deficits in fiscal years 1968 and 1969 through enactment of the President's tax program.

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**Exhibit 25.—Excerpts from statement by Secretary Fowler, June 25, 1968, before the Senate Finance Committee, on H.R. 16241, a bill containing a portion of the Administration's recommendations for dealing with our foreign travel payments deficit**

Thank you for giving me the opportunity to discuss with you H.R. 16241, a bill containing a portion of the Administration's recommendations for dealing with our foreign travel payments deficit. These recommendations are a part of the overall program set forth by the President in his January 1 message on balance of payments. Before discussing the details of this legislation and our recommendations in this area, let me place this measure in perspective by reviewing with you our overall balance of payments program and how it is progressing.

**I. The balance-of-payments program**

I think it unnecessary to detail the conditions which led to the President's balance of payments message. You are all familiar, I am sure, with the fact that our balance of payments deficit for the year 1967 was almost \$3.6 billion, and in the final quarter of the year exceeded \$1.8 billion, which would represent a deficit of over \$7 billion on an annual basis. These deficits, together with the devaluation and difficulties of the British pound, the other reserve currency, have led to intense gold speculation and doubt about the survival of the international monetary system as we know it.

On January 1, President Johnson set forth an Action Program to deal with our balance of payments problem, as a national and international responsibility of the highest priority. This program stressed, as the first order of business, the urgent need for enactment of a tax surcharge which, coupled with expenditure controls, would help to stem the inflationary pressures threatening both our economic prosperity and our trade surplus. This fiscal package, now happily becoming law this week, is the keystone of our program to correct the balance of payments problem.

In any discussions of the balance of payments problem, we cannot overlook the other features of the President's "first line of defense of the dollar." It is of unquestioned importance that business and labor work together to make effective the voluntary program of wage-price restraint and to prevent work stoppages that will adversely affect our foreign trade.

In addition, the President's program called for a number of both temporary and long-range measures directed at the improvement of specific sectors of our international payments accounts.

These specific measures included a five-part program designed to achieve near equilibrium in our balance of payments deficit this year by calling upon each



major segment of our economy importantly involved in the balance of payments to make a contribution to this savings target. This program asked:

—American business to reduce its outlays for direct investment abroad by \$1 billion, under a new mandatory program to be administered by the Commerce Department;

—Banks and other financial institutions to reduce foreign lending by \$500 million, through a tightening of the voluntary restraint program administered by the Federal Reserve Board;

—The American people to reduce their overseas travel expenditures by \$500 million, on the basis of the President's request for voluntary deferral of non-essential travel plus legislation to help achieve a reduction in travel expenditures by those who do travel;

—Government to reduce or offset its expenditures overseas by \$500 million, through specific action programs assigned to the Secretaries of State, Treasury, and Defense and the Director of the Budget; and

—For prompt cooperative action through consultations with our trading partners to minimize disadvantages to our trade, or appropriate legislative measures, to realize a \$500 million improvement in our trade surplus.

It is the travel portion of this immediate direct action program which at this time requires legislation. In the other sectors, the measures called for have been instituted and are underway.

Thus, for business, the mandatory restraints on direct investment have been in operation under Commerce Department regulations since January 1 and have, during the first quarter of 1968, already had a sizeable favorable impact on our balance of payments.

For banking, the Federal Reserve Board restraints on foreign lending were, similarly, issued and effective on January 1. Major progress has already been made toward achievement of the goal under this program, with a decline of about \$350 million (seasonally adjusted) during the first quarter of this year in commercial bank claims on foreigners.

The Government has taken action on each of the three specific steps to reduce expenditures abroad listed by the President in his January 1 message:

—Discussions with a number of countries in both Europe and Asia to find various ways to reduce the foreign exchange costs of maintaining our troops abroad are already well underway.

—An initial program for a 12-percent reduction of overseas staffs by the end of 1969, together with a further tightening of Government travel abroad, was put into effect on March 30; and a second-stage effort to achieve even further reductions, primarily in the larger overseas missions, is underway.

—The Department of Defense is examining a series of possible specific measures to reduce further the foreign exchange impact of personal spending by U.S. military personnel and their dependents in Europe, which are importantly related to civilian tourist travel.

In addition, the President, on January 11, directed AID to reduce overseas expenditures in 1968 by a minimum of \$100 million below the 1967 level.

For trade, the President's Special Trade Representative, Ambassador Roth, has headed an effort by many of our overseas missions to explore actively with our major trading partners possible immediate as well as longer-term cooperative actions to contribute toward improvement in our trade surplus. Ambassador Roth has reported on these discussions in the current hearings before the House Ways and Means Committee.

A Working Party in the GATT has been instituted at U.S. initiative and is now engaged in an examination of existing provisions dealing with border-tax adjustments and their effects on trade, looking to the development of a program designed to remove or minimize any significant disadvantage to U.S. trade that results from the existing GATT provisions and the tax systems of our principal trading partners.

In other words, action on each of these parts of the President's balance of payments program is well underway. The one remaining aspect of the program is the travel area where the goal is to reduce the balance of payments deficit by \$500 million. H.R. 16241 represents a beginning—modest as it may be—of the action required to effect an immediate reduction in the outflow of dollars. A long-range program of a different direction, to increase foreign travel to the United States, is already well underway, having as its cornerstone the recommendations of a Task Force headed by Ambassador McKinney. I should like to file a copy of the Report of that Task Force which undertook this work early this year and submitted its report to the President on February 15, 1968.



## II. The continuing need for a full implementation of the January 1 program

Events since the beginning of the year have confirmed that the President's full Action Program is needed to help bring our balance of payments to equilibrium, to maintain confidence in the dollar, and to stabilize the international monetary system.

Our balance of payments deficit, sorely affected by the fall-off in our trade surplus ran at too high a rate in the first quarter. The first-quarter results released on May 14 show a liquidity deficit of \$600 million, seasonally adjusted, equivalent to an annual rate of \$2.4 billion.

This does show, I am happy to say, a quick and quite substantial recovery from the extremely high and totally unsustainable rate of deficit which we suffered in the last three months of last year.

However, continued effort is necessary to advance us further toward our vital goal of sustainable equilibrium. Although we made notable gains in the first quarter, these were mainly due to a number of factors in our capital accounts. These included:

(1) A sharp reduction in bank lending and large sales of special corporate bonds to foreigners, in connection with the Federal Reserve and Commerce programs;

(2) Foreign net purchases of U.S. corporate stocks which amounted to about \$275 million, approximately maintaining the same post-war record rate averaged during the last half of 1967; and

(3) One large known transaction, classified as foreign direct investment in the United States, involving an inflow of slightly over \$200 million.

We certainly cannot rely only on improvements in the capital accounts to restore equilibrium in our balance of payments—we must look to the achievement and maintenance of a substantial merchandise trade surplus as an essential cornerstone of our balance of payments. However, during March, in particular, and for the first quarter of this year, as a whole, our performance on trade account has been very poor—reflecting the crucial importance of the tax increase-expenditure reduction measure to curb domestic inflationary pressures and the excessive increase in imports that characteristically accompanies an excessive rate of growth in our economy. Our trade surplus for the first quarter fell to an annual rate, after seasonal adjustment, of only slightly over \$400 million—compared with a \$1.3 billion annual rate based on the final quarter of 1967, and a \$4.2 billion annual rate based on the three preceding quarters of last year.

On other fronts also, events during the interim since January 1, have further underlined the reality of the threat to our dollar which was feared at the beginning of the year. From February 7 to March 20, 1968, we experienced a period of intense speculation in the foreign exchange and gold markets of the world. During this period, the Treasury Department transferred a total of \$1½ billion in gold to the Exchange Stabilization Fund in order to replenish its working balances and complete the settlement of the U.S. share of the losses experienced by the gold pool.

These gold losses clearly indicated the concern held by foreigners as to this country's persistent balance of payments deficit. The situation threatened to bring about serious difficulties for the world's entire financial structure, with accelerating interest rates and the choking off of credit availabilities beginning to spread from the international money markets into domestic markets.

The impact of this monetary crises was felt not only by bankers and finance ministries of the world. The American traveler also was directly affected. For example, over the period of March 14 through March 18, many American travelers experienced considerable difficulty spending or converting their dollars at the hotels, restaurants, and banks of Europe. When they were permitted to convert, it was frequently at a large discount. Thus, some American travelers were getting only—

—94 cents for a dollar in Paris

—96 cents for a dollar in Italy

—80 cents for a dollar in Germany

I would venture to say that these Americans who experienced the direct effect of a lack of confidence in the dollar would welcome, if not insist upon, immediate measures to insure that their dollars are not so threatened again.

Fortunately, as a result of the meeting, on March 16-17, of the gold pool central bank governors in Washington, decisions were made and action was taken to restore order to the financial markets. However, the cost of those 6 weeks of speculative activity in terms of our loss of gold and in terms of the

strain on the international monetary system was severe. The steps that have been taken—while representing an effective solution for the immediate problem—will not guarantee against a repeat performance in the future. We can only protect against further attacks on the dollar—and, through it, the world monetary system—by striking at the root of the problem—the persistent imbalance in foreign payments, with a deficit in the United States and a surplus in Europe.

### III. Foreign travel and the U.S. balance of payments

Foreign travel expenditures are a major contributor to the balance of payments deficit and a comprehensive program to close the deficit would be incomplete and out of balance were travel omitted. In 1967 alone, a record number of Americans traveling outside the United States spent \$4¼ billion, an increase of 17 percent over the previous year. These expenditures involved a foreign exchange cost of \$4 billion. Receipts from foreign visitors to the United States came to only \$1.9 billion leaving a deficit of about \$2.1 billion.

In fact, for the period 1961 through 1967, the total foreign payments for international travel (about \$21 billion) were nearly as great as the total foreign exchange costs (\$22.9 billion) of our military expenditures abroad, including the foreign exchange costs of the war in Southeast Asia. In other words, the balance of payments costs of our foreign travel have been equivalent to the balance of payments costs of our national security to the extent it depends upon the operations or presence of our military forces outside the United States.

We hear a great deal in some quarters about ending the war in Southeast Asia or bringing U.S. military forces home as a means of reducing our balance of payments deficit. We also hear a great deal about reducing our forces in Western Europe because of their foreign exchange costs. I am not here today to debate these issues. I am here to say that the Government which adopts a program of doing what ever it can, consistent with national security, to reduce or neutralize the foreign exchange costs of our military operations overseas, must similarly tackle the problem of travel expenditures when our balance of payments is still in a serious state of chronic deficit.

The net foreign exchange impact of this level of foreign travel spending can be measured by offsetting against it the spending in the *United States by foreign* travelers. For the same 1961 through 1967 period, the net deficit in foreign exchange payments arising from tourism amounted to a little over \$11 billion, as compared to about \$17.4 billion net foreign exchange deficit for military expenditures abroad after offsetting the foreign purchases of military equipment in the United States. Moreover, unless effective measures are undertaken, the situation with regard to travel can only get worse in the future.

In this regard, the Chase Manhattan Bank recently published in its June 1968, "Business in Brief" a summary review of how travel figures in the U.S. balance of payments. This summary states, "Travel is a fast growing element in U.S. international financial accounts. Outlays far exceed receipts, helping to create payments deficits." The bank points out that foreign travel is among the major causes of dollar outflows; the \$4 billion of foreign travel payments in 1967 being almost as large as military spending of \$4.3 billion.

The bank presentation also calls attention to the fact that expenditures abroad by Americans and expenditures in the United States by foreigners have both been increasing, and indeed the latter rate of increase on a much smaller base has been somewhat greater. The important point clearly indicated by these figures however is that "if recent rates of growth in travel persist, the dollar gap between outlays and receipts will continue to widen." Thus the bank summary shows that under a continuation of growth patterns that have been exhibited in the past few years, the \$2 billion of deficit in 1967 will widen to \$3 billion by 1975. Other estimates, taking into account the greatly increased travel which will flow from the new huge passenger "air-buses," place the travel deficit in 1975 at much higher figures.

All of the economic and social forces at play within our economy will inevitably lead to more Americans traveling abroad in the future and spending more. First, it is anticipated that disposable income will increase year by year. Thus, even if the percentage of disposable income which is spent on foreign travel remains constant, the year-by-year increase in disposable income will automatically lead to a year-by-year increase in amounts spent on foreign travel.

In fact, however, it is reasonable to expect that the percentage of disposable income spent on foreign travel will also increase, thereby further increasing the foreign travel payments. One factor which leads to this conclusion is the rising level of education in this country which should lead to more and more people

wanting to travel to foreign countries for its educational value. Second, as per capita income rises, a larger percentage is available for less-essential spending which would undoubtedly include travel. Furthermore, the anticipated introduction of airplanes with much larger capacities brings the prospect of lower air fares which should encourage more people to travel abroad.

In other words, the economic and social trends in this country can lead to no other conclusion than that our foreign travel payments will increase year by year. This situation, present and future, presents a problem that cannot be dismissed or laughed off or put under the rug.

The long-term solution to moderating our travel deficit lies in a strong program to encourage travel by foreigners to the United States. A Task Force under Ambassador McKinney has examined ways to achieve this goal and has made a series of recommendations, some of which are already in effect. This represents a significant step towards a long-term solution.

It cannot be expected, however, that travel by foreigners to the United States will serve to moderate sufficiently the projected U.S. foreign payments abroad, at least over the near future while the recommendations of the Travel Task Force are being put into effect and their results assessed. The major problem is that the present disposable income base from which travel by foreigners can be financed is much smaller than the U.S. disposable income base from which our foreign travel is financed. Moreover, there are fewer Europeans than Americans with sufficient income to finance travel overseas.

If one looks at the principal travel expenditure potential as located in people with incomes over \$10,000, there are about five times as many of these travel spenders in the United States as there are in the principal countries of Western Europe.

Moreover, for 1965, U.S. disposable income was about \$470 billion while the disposable income of the major Western European countries was around \$275 billion. Thus, even though some Europeans may put a heavier emphasis on travel in their budget priorities than do Americans, and even if there were an immediate significant increase in the percentage of disposable income spent by Europeans in travel to the United States, the absolute dollar gap between their spending in the United States and our spending abroad could still grow over the short run. Therefore, remedial measures of a less pleasant and a more restraining nature are necessary.

The travel program which we proposed to the House Ways and Means Committee contained three elements:

1. Permanent elimination of the exemption of international flights from the 5 percent tax on airline tickets.

2. Permanent reductions in the duty-free allowance for articles brought into the United States by returning travelers and for gifts sent by mail.

3. A temporary tax based on expenditures made by travelers abroad.

The bill before you, H.R. 16241, essentially carries out the first two of these recommendations but contains no provisions regarding the third.

Our total travel program was estimated to yield an improvement in our travel deficit of \$500 million. The legislation before you, it is estimated, will improve our balance of payments position by \$140 million, less than a third of the needed \$500 million. As I have already indicated, there has been no lessening in the need for a savings nearer the proposed \$500 million level. Therefore, I urge your committee to add to H.R. 16241 a tax, along the general lines we have proposed, to restrain spending in connection with foreign travel.

More specifically, we propose that a progressive tax be imposed on foreign travel expenditures. Under the rate schedule, the first \$15.00 per-day of expenditures (computed on an average basis over the entire trip) would be exempt from tax; the total of expenditures in excess of that basic exemption would be taxed at a 30-percent rate. The tax is structured in this manner in order to achieve the necessary balance of payments effect by encouraging travelers to keep their spending to a modest level rather than to cancel their trips. In this way it offers the greatest opportunity for foreign exchange savings with the minimum interference with travel.

This proposal differs in only one major respect from that which we presented to the Ways and Means Committee. Under our original proposal, only the first \$7.00 of average daily expenditures would have been completely exempt from tax; the next \$8.00 would have been taxed at a 15-percent rate and the excess at the 30-percent rate. Thus, while practically all travelers would have been subject to at least some tax, it would have been very modest for those who



traveled modestly and generally would not have required people to cancel their trips.

Nevertheless, some of those who commented on our original proposal indicated that even a modest tax would force cancellation of some desirable trips, especially those made by students and others on very strict budgets. As revised, our proposal would avoid this possibility in that a student or other traveler could completely avoid the expenditure tax by keeping his average daily expenditures below \$15.00. This level of daily expenditures would seem completely realistic, especially for the type of trips taken by students and others traveling on modest budgets. Moreover, the elimination of one of the tax brackets will simplify the tax computation.

It has been suggested that the per diem exemption be replaced by a flat per-trip or per-year exemption. This alternative presents certain problems. First, it would graduate the degree of spending restraint by the length of the trip, and, by so doing, would favor shorter trips over longer trips. The available statistics show that in income groups below \$20,000 the total expenditures per trip are relatively the same, but the less affluent spend less per day and stay longer. This latter group is heavily weighted with students, teachers, and individuals visiting foreign relatives, all of whom are likely to need extended trips in order to meet their objectives. A per diem exclusion recognizes this trend by allowing a basic exemption based on the number of days of travel. Thus, even those whose travel objectives require a trip of above average length will be able to take the trip at a modest spending level without undue concern for the tax. A flat exemption per trip would, on the other hand, favor those who take shorter trips by allowing them a higher average per-day rate of expenditures subject to the exemption. This group consists generally of the more affluent, where the so-called big spending is more likely.

Furthermore, if the exemption were on a per-trip basis, it would unfairly favor frequent short trips over a single trip of the same total duration. For example, a person who took four 20-day trips would be entitled to four times the amount of exemption as a person who took one 80-day trip. Again, in this respect, a per-trip exemption would favor the wealthy who are more able to take many trips abroad.

If some provision were added to limit the multiple trip problem, such as no more than one exemption per year, an undesirable degree of rigidity would be interjected into the tax structure. For example, a businessman may honestly believe that he is going to take only one trip during a year and, accordingly, use up his whole exemption on that trip. If a business emergency were to require a second trip, each dollar would be subject to the full 30 percent tax no matter how modest the spending by the individual. This could result in an unreasonable burden. Thus, we recommend retaining the per-diem approach.

By structuring the tax in the manner we have, there is no necessity for providing a list of exemptions for specific types of travel which might be considered especially important, either from a business or a cultural standpoint. Instead, the traveler can avoid or minimize the impact of the tax by keeping his spending to a modest level. It would seem clear that specific exemptions are undesirable as they require arbitrary distinctions and administrative complexities.

On the other hand, our proposal does draw a distinction between individuals who are traveling and those who have essentially shifted their residence abroad. The tax would not apply to this latter category, which includes businessmen transferred abroad for a substantial period and students and teachers who are either studying or teaching abroad. In these situations, the individual is likely to have substantial expenses in setting up his household with the result that the imposition of a tax might cause considerable hardship. These exemptions, as well as the other details of our proposal, are explained in the attached technical explanation.

We estimate that the balance of payments savings from this expenditure tax would be about \$115 million to \$140 million per year.

This travel tax has been criticized on several different levels and, at the risk of appearing defensive, I would like to catalog these criticisms and give you the other side. This seems particularly required in view of the general lack of balance in the testimony which has been presented to date.

There are those who argue that there is no balance of payments problem. I have already discussed this in some detail and am sure you are as well aware as I am that this is just not the fact.

In this regard, it has been contended that we have overstated the travel deficit by not including the purchase of airplanes by foreign airlines as an

offsetting expenditure in the United States. First, certainly not all foreign airplanes are used solely to transport travelers to and from the United States. Second, moving airplane sales from the trade account to the travel account will not alter the overall balance of payments deficit or the fact that Americans spend about \$4 billion each year in connection with foreign travel—which is almost 10 percent of this country's total foreign payments. Thus, a mere book-keeping change will not eliminate the immediate need for reducing our foreign travel payments.

It has frequently been stated that the travel tax would interfere with the inalienable right to travel. While the value of travel is unquestionable, the fact nevertheless remains that a family must budget for its travel outlays and so must the nation budget its international expenditures to the foreign exchange available. As I have already indicated, we have structured the travel tax to accomplish this national budgeting with as little interference with travel plans as possible. The bulk of the foreign exchange savings will come from reduced spending while on a trip, and not through cancellation of the trip.

Other critics claim that an affirmative program restraining our travel expenditures abroad will be ineffective because of the retaliation it will evoke. An area of retaliation frequently pointed to by these critics is a reduction in foreign orders for U.S. aircraft. Close examination does not lend credence to this fear. The travel program is specifically designed to have the least impact on the number of people traveling abroad. This effect should be even more pronounced with our proposed modification in that there would be no expenditure tax imposed—and therefore, no motive to cancel the trip—where spending is below \$15 per day. The tax should thus have the least effect on the airline business, and therefore on aircraft orders, of any form of restraint on travel expenditures.

The next group of critics focuses directly on the structure of the travel tax and takes the position that it is unworkable, unenforceable, unfair, and ill-conceived—to say the least. They say that the tax will fall heavily on teachers, students, and other low income people; that it will have little effect on “jet-setters;” that it will involve mountains of red tape; and that it will encourage prohibition-type evasion.

The proposed tax clearly cannot be faulted on equity grounds. The tax is progressive according to expenditures, which, after all, is the factor contributing to the balance of payments problem.

It is designed so that one traveling modestly will incur little or no tax. On the other hand, the 30-percent rate on expenditures over \$15 per day is a significant continuing deterrent to marginal expenditures even by the most affluent traveler.

A substantial tax on tickets, such as 30 percent, or a tax on each traveler in a fixed amount, or a tax graduated by the number of days of travel would fall equally on the modest traveler and on the lavish traveler. Such taxes would therefore represent a far greater proportion of the expenditures of the less affluent and would be no continuing deterrent to the more affluent. In other words, they would be grossly inequitable.

As to enforcement, just as one can argue that there are ways to evade the travel tax, one can argue that there are ways to evade the income tax—and some people try it. Out of 100 million returns filed in the United States, however, and out of 3 million returns examined, there were about 1,000 fraud indictments last year. This clearly demonstrates that the great mass of American taxpayers accept their responsibility to pay taxes—if not happily, at least honestly. There is no reason to believe the travel tax would not be accepted in the same way.

Much of the criticism based on complexity and evasion involves a misconception of the tax. The tax does not involve the itemization of any expenditures. Therefore the picture presented by some critics of European hotel clerks busily grinding out \$3 receipts for \$25 suites would not materialize. The tax is based on the difference between the amount of money and traveler's checks a traveler leaves the United States with and the amount left when he returns. This will be the extent of the computation for most travelers. For those who use credit cards and personal checks, these amounts would be added. But no one need carry pencils and pads—or take his accountant—with him on his trip to Europe.

The final level of criticism is that, even accepting the need for a travel tax and the structure of this proposal, it cannot do the job of effecting the anticipated balance of payments savings. These critics point to the fact that the tax is applicable only to travelers outside the Western Hemisphere and, moreover,

that large groups of such travelers, such as businessmen, persons visiting relatives in Europe, teachers and students, will travel to Europe despite the tax. They claim that it will have no effect on the wealthy. They therefore contend that the base on which the tax can operate is only vacation travel outside the Western Hemisphere by middle income people and that a base so limited is insufficient to yield the balance of payments savings we are seeking.

This criticism ignores the structure of the tax. The tax indeed assumes that most travelers to Europe will not cancel their trips. On the other hand, it is fair to assume that all types of travelers will respond in some degree to the tax, either by keeping their spending below the exemption level, by shortening their stay by a few days, or by eliminating some marginal expenses. Indeed, a traveler contemplating spending \$25 a day could absorb the entire tax, including the ticket tax, by cutting only 4 days from a 30-day trip. If the \$25 a day traveler wanted to spend his full 30 days in Europe, he could offset the tax by reducing his expenditures to about \$22 a day. It is therefore reasonable to believe that travelers of all types will examine their spending plans with the tax in mind. On this basis, a \$115 million to \$140 million balance of payments savings out of the almost \$1.5 billion in contemplated travel expenditures for travel outside the Western Hemisphere seems clearly attainable.

It is also reasonable to expect that this would be a real savings and not produce just a transfer of the travel to countries in the Western Hemisphere. There may, of course, be a certain number of travelers who will revise their plans. But it is clear that the existing tourist facilities in the Western Hemisphere outside of the United States will not accommodate a large amount of additional tourism.

In other words, the tax is designed to meet equitably the need for temporary restraint on foreign travel spending, with due regard to the varying types of travelers. Its mechanics for the vast majority of travelers are uncomplicated and can be readily understood and satisfied. The tax, thus, offers an essential and feasible bridge to the time when our longer-range programs to increase tourism to the United States take hold.

If no measure is enacted to deal directly with expenditures by U.S. travelers, the overall improvement required in our balance of payments position can be achieved only if other sectors of the economy contribute more than their fair share. Thus, I consider the foreign travel tax today, as I did on February 5, an essential part of our balance of payments program. The confidence of the rest of the world in our dollar depends, in part, upon the resolve we demonstrate to put our financial house in order. The bill before you today is a step in the right direction as well as a solid structural revision in our tax and Customs laws. But the dramatic demonstration of our resolve and a sizable reduction in our travel deficit rests upon the absent portion of the Administration's program—the foreign travel tax.

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#### IV. Conclusion

In conclusion, I urge that this Committee take immediate and affirmative action to narrow the balance of payments deficit in our foreign travel account. The first step is to approve, subject to the revisions we have recommended, the extension of the air ticket tax and the customs measures included in H.R. 16241. The second is to add to this bill the tax we have proposed to encourage restraint in foreign travel spending. In this form, H.R. 16241 would represent a balanced and effective program for dealing with the important balance of payments problem in the travel area. Solution of this problem, in turn, is critical if we are to improve our overall balance of payments deficit—an improvement that is so necessary to maintain strength and confidence in the dollar.

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**Exhibit 26.—Statement by Under Secretary Barr, September 14, 1967, before the Senate Finance Committee, on S. 2100, which provides certain encouragements to the construction or rehabilitation of low-income housing**

I am pleased to have this opportunity to testify on the bill S. 2100, which provides certain encouragements to the construction or rehabilitation of low-income housing.

We recognize that this hearing will serve to call attention to various approaches to the goal of increasing the supply of adequate housing in poverty areas. Both



the goal and the desire to explore all approaches are most laudable. As is always the case with Government policies, we must be ready to evaluate alternative means of achieving our objective and consider that objective in the light of other calls upon our resources. The bill introduces new ideas in the approach to the problem of low-income housing, such as the increased reliance on equity investment, which justify a careful study.

I shall address myself to the tax and loan provisions of S. 2100. Briefly, the bill allows generous investment credits, generous depreciation provisions, generous capital gain treatment after 10 years, a partial relief from local property taxes, and a generous low interest loan.

All of these tax and loan benefits are conditioned on the housing project meeting certain standards as to acceptability as low-income or moderate-income housing. These standards are administered by the Secretary of HUD. I shall not add anything to the evaluation of these provisions as respects a desirable housing policy since Secretary Weaver has already commented on this. I shall have a few remarks to make later on about the problem of linking tax treatment to findings as to compliance with conditions established by Government Departments other than Treasury.

I shall not undertake to repeat the details of the bill's tax provisions, but I shall draw your attention to certain broad aspects of the way these tax provisions are set forth in the bill.

(1) The investment credit and the depreciation provision are structured to provide more tax benefits the larger the proportion of equity that is put into the project, though as I shall point out later the structure of the bill as a whole does not always provide a better rate of return for higher equity.

(2) The investment credit and the depreciation provisions are structured to yield tax benefits even if the housing project itself is unprofitable. Actually, the depreciation is so generous that the normal expectation would be for the housing project to show a loss for tax purposes; and the only way the taxpayer could realize the offered tax benefits would be to use them against taxable income from other sources. This would be easy if the housing investor is a large company with diversified interests, especially non-real estate interest because even ordinary real estate investments tend to show losses for tax purposes. To facilitate this use of excess deductions on the housing project, the bill also amends Subchapter S, the provisions that allow certain corporations to elect to be taxed in a way generally similar to the taxation of partnerships. This will permit the organization of an eligible housing project by a group of individuals with the intent of using the excess deductions against their ordinary income from other sources.

(3) Finally, the various tax benefits are designed to encourage a 10-year holding period by the original investors. The provisions dealing with sale are also structured to encourage sale to another organization that will have the purpose of offering low-income housing.

### **General remarks on the tax incentive approach**

I want to comment first on this use of tax incentives to encourage non-revenue objectives involving a narrow group of taxpayers.

My first point is that there are no special tax disadvantages to real estate investment. There would be a case for considering changes in the tax law if it were contended that the tax law provides special tax disadvantages or tax barriers to housing investment. The advocates of this legislation have not claimed that present tax law is loaded against real estate investment or against low-income housing investment. Rather they state that the problem arises within the housing field, that given the level of building and rehabilitation costs, construction cannot be undertaken which yields a positive profit when rents are charged which are a reasonable proportion of the income of moderate- and low-income individuals. The advocates of S. 2100 contend that this inconsistency between building costs and reasonable rent levels should be offset by very generous tax provisions.

This makes S. 2100 plainly an effort to achieve nonrevenue objectives through the tax system. What can be said about this?

To answer this question, I would like to start off by saying that we ought to begin with the assumption that an investor chooses between alternative investments on the basis of net aftertax income in relation to investment. I shall address myself later to the question of whether there are differences from the investor's standpoint or the Government's standpoint between dollars that are "paid" as tax reductions and dollars that are "paid" in other ways. It is useful

first, however, to recognize the basic similarity between a dollar benefit received from tax savings and dollar benefit from direct Government outlays. Each is a buck.

A tax saving can always be reproduced by some form of Government payment program. A tax credit of 10 percent of an investment provides the same result as giving an investor 10 percent of the cost of his investment. Allowing a taxpayer to speed up depreciation deductions by taking, say, 20 percent of the cost in the first year permits a corporate taxpayer to reduce its tax payment by 48 percent of this deduction in the first year, and it increases the tax payments at some future time when the deduction would otherwise have been taken. This benefit can be reproduced by offering the taxpayer an interest free loan equal to the amount of tax saving from the rapid depreciation to be repaid in the future when he would have otherwise taken the depreciation.

I cannot stress this point too strongly. There is no magic which permits Government to give away tax dollars and have a lesser budget impact than if it had given away expenditure dollars, nor does a dollar of net budget cost have a different impact on the investor's after-tax rate of return if it is incurred as tax reduction or as direct outlay.

While there is this broad comparability between tax incentive programs and loan or expenditure programs, there are some significant differences which must be kept in mind. To be very clear, let me specify that I am comparing a tax and an expenditure program which produce the same net benefits for the investor and have the same net cost to the Government. For illustration, one may want to think of a tax incentive which provides an annual tax credit for low-income housing investment exactly equal to the benefit that the investor would gain from an annual direct payment, which we might call a rent supplement. This hypothetical tax credit could be made available under exactly the same terms that rent supplements are made available under present law. The question comes down to: "What are the advantages or disadvantages of building this rent supplement program into the tax law?"

One difference is that the tax route does not provide assistance to the individual or corporation which has limited income from other sources and which therefore cannot make full use of the tax incentives. A system of direct payments on the other hand could provide benefits even where the particular housing investment was the only activity of the investor being benefited. One would think that this was a general disadvantage of providing incentives through the tax system. The supporters of S. 2100, however, apparently believe that it is the large businesses which ought to be attracted into the low-income housing field and that they take it as no disadvantage to their tax approach that the benefits are only helpful to taxpayers with incomes from other sources. This I might add is not a particular advantage of the tax approach since this sort of condition could be built into the rent supplement program if we agree that the condition is a desirable one.

Another difference between the tax and expenditure routes is that the tax benefits, where they are related to increased deductions, vary in amount according to the effective tax rate of the taxpayer. The tax benefit of rapid depreciation can be as high as 70 percent for the individual taxpayer in the top bracket or as low as 14 percent for a low-income investor. S. 2100 does provide some tax benefits that work through extra deductions, so that it will thus afford different relief for different taxpayers.

This I should point out works in directly the opposite direction to the normal incentive generated by a free pricing system. In a free pricing system the usual response to shortages is an increase in price and, consequently, an increasing income to people who can provide the service in short supply. This increasing income would be subject to the usual tax rules, and a person in the 70-percent bracket would find that he could keep 30 percent of income earned by providing the services just as he could keep 30 percent of any other income he had earned. The investor in the 30-percent bracket would find that he could keep 70 percent in both cases. When we structure the incentive, however, as an additional tax deduction rather than as a price increase, the incentive is far more attractive to the high-income taxpayer than it is to the low-income taxpayer.

It becomes a matter of careful calculation for each investor, and his tax adviser, to determine how much this extra depreciation is worth in the particular case and whether or not this justifies accepting a lower before-tax return. It may be useful to point to the analogous situation of tax-exempt bonds. One cannot answer the general question: "Are municipals a better investment than U.S. Governments?" without examining, and making assumptions, about the future

total income prospects of the investor. The value of the tax exemption depends upon future tax rates. It is well known that tax-exempt bonds are attractive investments to high-income taxpayers but not to low-income taxpayers. It is also suggested in the literature on the tax exemption that this constitutes a rather inefficient incentive because the net incentive effect must work through the marginal investor who will get less advantage from the exemption than higher bracket investors, and some of the benefit afforded the high-bracket investor is wasted.

Another difference between the tax solution and the expenditure solution is that reliance on tax incentives for nonrevenue objectives divides the Government consideration of social problems. Let me go back to my hypothetical example of a tax credit system which provided exactly the same benefits as a rent supplement program. By throwing these benefits into the tax system we have not changed the basic fact that this is still a major housing problem, but we have gotten the Treasury Department and the Finance Committee and the Ways and Means Committee into the act at the cost of reducing the ability of the Department of HUD and the congressional committees that normally deal with housing problems to act on the total housing picture. I don't want to suggest that the two tax committees are necessarily inadequate to decide on housing policy—or on all other social problems—but I can speak from a personal standpoint that I see no reason why the Treasury Department has any particular competence in making judgments as to what constitutes good housing policy; and converting the rent supplement arrangement into tax credits would simply push the Treasury into this position.

A further aspect of converting an expenditure program into a set of tax benefits is that it tends to get isolated from the budget review process. An expenditure program is examined regularly in the preparation of the President's budget and in the appropriation process. A tax provision rarely gets reviewed. I might suggest that the whole problem of tax reform to a large extent comes down to incentives and preferences that have been adopted at various times and never systematically reviewed to determine whether the Government is getting what it pays for. This does not mean that under a direct program we cannot provide a particular investor reasonable assurance that benefits agreed upon will in fact be forthcoming. It does mean that under a direct program we can make changes in the program when these become desirable, whereas experience has shown time after time that it is extremely hard to make changes where tax benefits are involved.

A final difficulty of structuring these benefits into the tax law is the precedent problem. There are an enormous number of other tax incentive proposals. The list is so long that I could not include them all, but let me give you the flavor of it. There are bills to provide—

- A tax credit for tuition and expenses of higher education.

- A tax credit to encourage contributions to higher education.

- A tax credit to encourage worker training.

- A tax credit to encourage industrial pollution control.

- A tax credit to encourage airport development.

- A tax credit for underground transmission lines.

- A tax credit for exports.

- A tax credit for freight cars.

- A tax credit to encourage gold mining.

- A tax credit to encourage hiring older workers, and so on and so on.

I cannot help but observe that if we go along this tax incentive route the Treasury Department would soon be making the crucial decisions in almost all matters of domestic economic policy. This would, of course, require a larger staff; and it has enormous possibilities for empire building. We would, however, prefer to decline this honor.

The proponents of S. 2100 imply that there might be some net advantages of the tax approach over the expenditure approach. I shall address myself to two of these. One argument advanced is that the Congress might vote for a tax program where it would not vote for an expenditure program which provided precisely the same benefits at precisely the same cost—or even a lower cost. I question the validity of this argument. In a democracy we must face up to some decisions, and we must be willing to abide by the decisions that our procedures reach. The Congress may or may not be willing to approve a program of budget losses and housing benefits. If that program is rejected on its own merits, it would seem that restating it as a tax reduction is akin to seeking a backdoor expenditure where it is harder for people to see just what are the costs and benefits involved in the expenditure.



Another argument which seems to be implied in support of S. 2100 is that the business response to a tax incentive would be better because there is a feeling that there is something wrong about accepting a direct payment from the Government but something honorable about earning one's tax bill through tax benefits. Basically, this viewpoint attributes a good deal of irrationality to business firms. It says in effect that they would not make a careful comparison of net returns but would arbitrarily reject some worthwhile profit prospects because the incentives were cast in the form of a direct subsidy rather than a tax subsidy. The experience with the SST program—and other subsidy programs—suggests that business firms do make careful calculations on their profit prospects taking direct subsidies into account. In fact, since the benefits of tax incentives vary depending on the estimated tax position of the investor, the calculation of the expected returns in a specific case can become more complicated when special tax benefits are involved. It seems disingenuous to assume that investors will do a lot of things in order to gain somewhat uncertain benefits in the form of tax reduction that they would not do to win benefits of exactly calculable amounts through some other system.

#### The particular incentives of the bill S. 2100

Secretary Weaver has discussed some cost comparison of S. 2100 and other methods of providing incentives to low-income housing. The evaluation of the particular incentives under S. 2100 in terms of returns to the investor requires analysis of the benefits under a variety of assumed patterns of investing in real estate and a variety of tax situations of the investor. The complexities here are so involved that we hesitate to offer any general conclusions. Some comments are appropriate, however.

The bill provides increasing tax benefits for investors with a higher portion of the cost of the project covered by equity investment. The bill defines equity investment as the difference between the total cost of the project and the face amount of any mortgage insured under Section 235 of the National Housing Act. This treats as a 100-percent equity case a project financed largely by a conventional mortgage. This would produce the result, for example, that if the project is financed with a 78-percent commercial mortgage then the investment credit in the first year would be equal to the entire real equity investment in the project. After the first year the investor could have gotten the full amount of his own investment back from the investment credit alone and in addition would have substantial benefits from the accelerated depreciation which is offered and from the net return provided in the bill. The value of the depreciation deductions alone, in the first five years of operation for a taxpayer in the 70-percent bracket, would be equivalent to an additional return equal to more than his initial investment. Over a 20-year holding period the bill seems to provide tax benefits in gross amount equal to about the full cost of the project, even after making allowance for the payment on the mortgage if we assume that the mortgage is a 20 year—6 percent loan. After the 20 years an investor who had put up a \$1 million project and was in a sufficiently high tax bracket would seem to have made tax savings of \$1 million; and he would be the outright owner of a housing project which on the basis of experience with real estate values would still be worth not much less than \$1 million, and under the bill he would be entitled to start taking depreciation on a restored basis of \$780,000.

In different circumstances, where there is no conventional mortgage, it appears that despite the intentions of the authors of the bill the rate of return under S. 2100 will not be better for a high equity investment than it will be for a low equity investment. This is likely to be the case if the taxpayer is in a lower bracket. In one sense this is a problem that could possibly be modified by restructuring the bill. The apparent objective of making high equity investment relatively more attractive could be accomplished by either charging a higher rate on the guaranteed loan or by providing sharper graduation of the investment credit. The heavy reliance in the structure of benefits on rapid depreciation would seem to make the results of the bill necessarily erratic between taxpayers at high or low marginal tax rates.

One point to be drawn from this goes back to the point I made earlier that the use of tax incentive devices makes it extremely difficult to calculate how much we are paying for an increase in some desired investment.

Another problem in this portion of the bill has to do with whether or not we really want a very high equity investment. In a basic sense the cost to Government of any system of incentives for low-income housing will have to be the difference between what we expect the tenants to pay in rent and the total return

necessary to make the investment attractive to an investor. Lenders expect a lower return than equity holders. If 90 percent of the initial investment can be accomplished through borrowing with a return of about 6 percent on that 90 percent, the cost of the total program to the Government will be less than it would be if 50 percent or 90 percent of the investment represented equity funds and which would require Government contributions large enough to provide a prospective 12 percent to 15 percent aftertax rate of return on those equity funds. To accomplish our goals in the low-income housing field as economically as possible, it would appear that we should rely heavily on the use of borrowed funds. The leverage provided by borrowed funds can guarantee a sufficiently high return on a net equity investment so as to attract equity investors. Some advice that we have gathered from people in the real estate business suggests that increasing available mortgage money for low-income housing would be fully as effective, and cheaper, than attracting more equity money. On this point the committee will want to get views from people with knowledge of the real estate business.

Since this committee is particularly concerned with the Government's administrative budget, it should be pointed out that any program which can be operated through the private banking system with a loan guarantee will involve lower administrative budget deficits than a program which requires Government to provide the loans directly. The device of 2-percent interest in S. 2100 will require direct Government financing and mean substantially high short-term budget costs for any net incentive provided.

We have some technical problems with the draft of S. 2100 which I shall not go into, but I shall submit a statement for the record on these points.

#### The tax law and real estate investment generally

It is appropriate to add some remarks on the general situation of investment in real estate including housing under the present tax law.

Real estate investments qualify for the accelerated depreciation methods provided under the 1954 Code revision. There is no record of critical consideration at that time of the appropriateness of applying these methods to buildings, and indeed it appears that these methods were adopted entirely with investment in machinery and equipment in mind.

Due in part to the inappropriateness of the allowable depreciation, a pattern has developed in building investment wherein the original investors often hold the property for much less than the useful life during which time the depreciation deduction is very high in relation to the cash flow, resulting in little or no current tax. When the depreciation base is largely exhausted, the property is sold; and a substantial capital gain is realized. The Treasury made recommendations in both 1961 and 1963 for cutting back on this pattern of realizing normal investment returns at capital gain rates. A slight cutback was enacted by the Congress in 1964.

Another part of the picture of the tax treatment of real estate investment is that the 7-percent investment credit does not apply to buildings. In substance we have the result that real estate investment gets tax encouragements in forms different from those offered investors in machinery and equipment. The Treasury Department is engaged in research to evaluate the impact of present tax provisions and possible alternatives on real estate investment, and several outside consultants are involved in the research.

In conclusion let me repeat my initial comment that S. 2100 raises important issues. I have tried to draw attention to several major aspects, including the technique of casting benefits in the form of specialized tax reductions and the emphasis on high equity investment. Both of these aspects have disadvantages of which the committee should be aware. I believe that these hearings, providing as they do, an opportunity carefully to consider and weigh as objectively as possible the varying approaches to an objective which we all share will prove to be a very helpful step forward in this area.

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#### Exhibit 27.—Remarks by Assistant Secretary Surrey, May 15, 1968, before the Boston Economic Club, Boston, on the Federal tax system—current activities and future possibilities

Major changes in the Federal tax system have now become an annual experience. That system is so directly involved in our domestic and international activities that the constant changes in those activities and concerns are reflected in alterations of our tax structure. Sometimes the tax changes that take place



in a given year are the result of events that develop during that year and require a prompt tax response. Sometimes—perhaps more often—the changes are the culmination of considerations and forces that began to gather several, perhaps many, years in the past. As a consequence, a survey of the Federal tax scene requires not only a description of current legislative activities but also an examination of current discussions and studies that may lead to legislative involvement in the future.

### Current legislative activities

The major activity in Federal tax legislation in 1968 is the emerging tax increase bill. One should really refer to the time span of that bill as 1967-68 because the surcharge proposal has been before the Congress since last August. The tax increase proposal has had a tortuous journey, and the Secretary of the Treasury throughout has had to play many roles. At times he has been a tax Candide, seeing progress in this procedural move or that statement by a legislator when all else saw only set back. At times he has sorrowfully been a tax Cassandra, as crises recurred in the international markets and gold filled the headlines. And at many another time he has been the ambulance surgeon on the emergency call or even a Dr. Christiaan Barnard—always able to detect a pulse or heartbeat when all others had put away their stethoscopes.

There are certainly many interesting facets of that journey. For one, the forecasting that underlay the recommendation for a tax increase was on target throughout. The economic pace of the economy was clearly foretold—a pause in the first part of 1967, a rise in the second half that would, in the absence of a tax increase, amount to an accelerated rate of growth that would be too rapid for our economic health. The domestic and international consequences that would accompany the unacceptable deficit position obtaining without a tax increase were also accurately foretold—rises in interest rates, an inflationary trend in prices, a setback to our trade surplus because of increased imports, a severely weakened balance of payments position, and attacks on the dollar in the international monetary field. The actual proving out of such a forecast is itself somewhat of a rare event where the forecast is the basis for policy action designed to affect the events forecast—to prevent too steep a rise or to brake a fall—and thus prevent prediction from becoming history. And so when a forecast calling for policy change has become actuality, then policy moves have gone astray—in this case through the passage of time. The enactment of the tax increase will start us on the journey away from all these dangerous instabilities to a more secure position at home and abroad.

Nor was the need for a tax increase a special phenomenon of the new economics or a matter of so-called fine tuning. Indeed, it was in response to a traditional reason for a tax increase—the need for revenues to meet rising expenditures of Government caused by our involvement in hostilities. The United States, ever since the ill-advised tax increase in the Depression, has not required an increase in income taxes except in a time of hostilities, for it is only in such a period that Government expenditures have outrun revenues. Thus, in one sense the surcharge proposal was a classic textbook case for a tax increase.

But the textbooks would have missed some other facets of the fiscal scene. One of these has been the desire of the Congress and the committees charged with the revenue policy—especially the Ways and Means Committee—and on whom falls the task of increasing taxes, to achieve a coordination between congressional consideration of appropriations and expenditures and congressional consideration of tax policy. The annual, and often biannual and even triannual bouts with the limit on the public debt had not proven to be an effective instrument of coordination, though they did pave the way to a much improved substantive format for the Federal budget and refinements in the concept of budget surplus or deficit. The need for a tax increase was soon seen as apparently offering a much stronger instrument, and this attitude gradually grew in intensity and scope. As a result, the tax increase proposal became the device to achieve last year a reduction in fiscal year 1968 "controllable" expenditures (over \$4 billion), and now under the Conference Report a reduction in fiscal year 1969 expenditures (\$6 billion), a cut back in proposed new obligational authority for fiscal year 1969 (\$10 billion), and a reexamination of carryover obligational authority (\$8 billion). The gradual development of these expenditure changes was accompanied by an increasing degree of interchange between the tax committees and the appropriations committees, especially on the House side. This procedural change, growing as it did out of a whole variety of tentative actions and shifting goals as the new terrain was explored, proved



a time-consuming process. And we are still left with the speculations as to what these developments may portend.

We can be hopeful, I believe, that the time involved in enacting the tax surcharge proposal will not be characteristic of the response to future needed changes in the level of taxes. There are too many particular connotations respecting this proposal—the varying attitudes to Vietnam hostilities for one—to make that time span a precedent. And hence, for example, any need to reduce taxes promptly in a post-Vietnam period to maintain full employment should not have to face a similar time span.

Another interesting facet is that the format of the tax increase was really never a subject of controversy. As a result of careful study of this matter in 1966, culminating in the Hearings of the Subcommittee on Fiscal Policy of the Joint Economic Committee—a study and hearing which the Administration had urged in preparation for the possible tax increase—the country had available a considerable amount of analysis and data on the shape of a tax increase, including the recommendation of that subcommittee for the surcharge form. The tax proposal reflected this background, and involved three essential aspects: an income tax surcharge form for both individuals and corporations; a shielding of those in the lowest brackets from the increase; and a temporary design for the increase. To a degree that is unusual in tax legislation, the initial proposal is reflected in the final version essentially without change.

The economic effect of the tax increase will be heightened by two recent developments in our tax structure—graduated withholding on wage and salary earners, and developments leading to a complete system of current tax payments for corporations. The former came in 1966, and the latter was built up by legislation in 1964 and 1966 and now by the corporate acceleration provisions in the current bill. The temporary tax increase will thus be immediately reflected in tax payments based on current levels of income and profits, so that those incomes and profits will at once bear the restraining effect of the increase.

While our balance of payments problems are reflected in the tax increase bill, they are also the occasion for other 1968 legislative activity still unfolding. For one the foreign travel bill is now in the Senate, with the 5 percent travel tax extended to overseas air transportation and a tightening of customs measures. There is still the need further to dampen tourist expenditures abroad. While foreign travel has its undoubted advantages for both individual families and the nation, still a family must budget for its outlays and so must the nation budget its international expenditures to the foreign exchange available. In the trade field, attention now shifts to the Hearings before the Ways and Means Committee scheduled for June 4.

#### Future events

Let us turn to the matter of future events in the tax field—or more properly current discussions, studies, developments, or what you will—that are likely to bring about legislative involvement at some point. I use the word “involvement” advisedly and broadly—it ranges from active congressional consideration producing legislative enactments to a congressional decision not to take any action despite the call for consideration from this or that quarter. For I must emphasize that I am here describing and not predicting—and the area of description extends beyond Government attitudes to business and labor discussion, academic interests, current research, and so on.

*Tax reform.*—There is a recognized need for a major effort for further tax reform. The pending tax bill calls for the President to submit proposals “for a comprehensive reform” this year. The consideration of tax reform has been held off by the deliberations over the tax bill. The operational aspects of tax legislation permit only one train to be on the main track at a given time, and so tax reform has been waiting in the railway yards for the main track to clear.

There is much to do in tax revision and many ideas have already been expressed, some in speeches by Treasury officials, some in legislative measures introduced by Congressmen, and some in speeches by legislators. The Treasury, for example, has called attention to the need to revise the rules relating to the transfer of property by death or gift, so as to achieve a more equitable estate and gift tax system with less tax distortion in family dispositions of property and a rational income tax treatment of appreciated assets so transferred. It has among other matters also stressed the need to eliminate corporate multiple surtax exemptions; to achieve a rational rearrangement of the tax treatment of the elderly; and to eliminate abuses in the area of private foundations and tax-exempt organizations generally. (It is an interesting commentary—should I say

insight—on the foundation scene that *Fortune* magazine in its recent article on "America's Centimillionaires" includes in its estimates of an individual's wealth the holdings of "foundations established by the individuals or their spouses.")

Chairman Long of the Finance Committee, in a recent speech, also mentioned a proposal he had earlier suggested, and which has, in one form or another, been introduced in bills by other legislators, that of a "minimum tax" to be applied to an expanded income base including various forms of income now excluded from coverage of the regular tax. He has also suggested maximum effective tax rates applied to the same expanded base. Chairman Mills has spoken of the need for steps designed to reduce the complexity of various facets of the measure of taxable net income. Others have focused on aspects of the tax law that enable people of large wealth to pay little income tax, and even in some cases to escape payment entirely. The Treasury has spoken of tax reform as involving a combination of revenue-raising and revenue-losing measures, so that on net balance there would be no significant overall budgetary effect. A number of Congressmen have viewed reform only from the revenue-raising, "closing of loopholes" aspect.

Some matters that were on various lists are already on the legislative scene, for tax reform must be a constant process and all developments cannot wait on major efforts for revision. Thus, the pending bill contains a provision setting a ceiling on tax-exempt industrial development bonds, thereby preventing them from swamping the regular tax-exempt bond market and from making private corporate bonds an archaic instrument.

The Secretary of Labor has submitted to the Congress proposals for revision of the structure of private pension plans involving a minimum standard of vesting, standards for the funding of benefits, and a system of plan termination protection. The measure is aptly entitled the "Pension Benefit Security Act of 1968"—for it deals with assuring a worker that years of labor in a company having a pension plan will bring him a vested benefit on retirement even though events cause him to leave that company before retirement age, and that there will be funds on hand for the payment of that benefit. This program is based on recommendations by an interagency staff committee, including Treasury Department participation, which were made after extensive consultations with informed groups regarding prior proposals. The Treasury fully supports this program. It also believes that its formulation as a measure outside the tax laws is a recognition of the importance of these matters in the whole context of employer-employee relations, a point of view that had been stressed by employer groups in criticizing prior proposals as not properly a part of the tax system.

As a substantive matter, I cannot see how one can quarrel with the basic goals of the Labor Department proposal. There is persuasive and saddening testimony to the hardship that can result from a lack of vesting in the many letters we and other Government agencies receive from individuals who, after working years for an employer, suddenly find they have lost their pension accruals because of a change in job or even a lay off. Aside even from the inequity of this result, the simple fact is that these individuals must now face retirement without the pension they expected. There is no way for them to retrace their steps and make other financial arrangements. For them, the private pension system is a failure and a mockery. And the expectation of the pension may well have affected their spending decisions while employed under the plan. In a country in which only half of the employees (aged 30 to 50) who have been with an employer for 10 years will be with that same employer in the next 10 years, this high degree of labor mobility requires that the vesting of benefits be an integral part of the private pension system. The Labor Department proposals will thus enable the private pension plan system to achieve the vital and beneficial role for which it was designed.

*Poverty and taxes.*—The tax system is a part of the social fabric of our nation. As such it will be affected by changes in that fabric and must be responsive to those changes, consistent with performance of its function of supplying Government revenues fairly and effectively. Significant events, violent and non-violent, are daily focusing the nation's attention on great poverty within our affluent society. The effects of this poverty and its growing subculture should—one hopes—appeal to our consciences and our capacity to move forward intelligently rather than to our fears. How will the tax system be involved in this appeal?

The tax system must play an essential role in enabling fiscal policy to fulfill the tasks of providing a full employment economy with as few destabilizing turns up or down as possible. Such an economy by itself will not eliminate pov-



erty or solve our urban crisis, but without it all solutions to those ills will fail. The problems are so immense that only with the full use of our potential resources will we be in a position to achieve success in overcoming them. Consequently, we must build on our limited experience of managing a full employment economy, improve our forecasting techniques, but more importantly, achieve the flexible procedures and postures that permit a sufficiently prompt response to the measures that the forecasts require.

Against a background of full employment, what is the relevance of our attack on poverty to the tax system? There is first the direct matter of the payment of a tax itself. Our present Federal income tax does reach below the poverty level, especially for single persons and married couples with no dependents. The President has said that as fiscal conditions permit this should be corrected, and the burden of income tax payments lifted from those in poverty. In keeping with this view, as I stated earlier, the 10-percent surcharge does not apply to the lowest income brackets.

Assuming that step to be an accepted policy goal, the scholars have turned to other taxes paid by the poor and in this regard are critically examining the Social Security payroll taxes. They point out that the employee tax is applied to the first dollar of wages without regard for family size and is proportional to wages covered, all in contrast to the income tax. As a consequence the present employee payroll tax is higher than the income tax for about 25 percent of the people paying social security tax. Moreover, this is wholly apart from the question of the incidence of the employer tax, which most economists believe also to fall on wages. Of course the benefits of the Social Security system are paid in a progressive manner. But the scholars are questioning whether the present poor should be called on to pay taxes to provide benefits for the currently retired, or for their own benefits in the future. Any significant increase in Social Security benefits is thus likely to involve the Congress in a consideration of the impact of Social Security taxes below the poverty level.

Somewhat similar concerns could well play a part in any congressional consideration of suggested changes looking to greater use of indirect taxation in the Federal tax structure. Legislation in recent years has involved an extensive cutback of Federal excise taxes, leaving this type of taxation largely to States and cities and strengthening the role of the income tax in the Federal structure. This concentration on the income tax at the Federal level has brought its fiscal policy benefits, for the United States has shaped that tax into a measure that can be promptly responsive to our fiscal needs, unlike the income tax structures in most countries. And we are steadily improving the equity of the tax. In some business—and academic—circles, consideration is being given to adding a mass sales tax at the Federal level, be it a retail sales tax similar to our State taxes or a value-added tax which would have the same economic effect. The thought generally is to substitute this for a part of the corporate tax. Others have asserted this would shift the burden of the tax dollars involved from corporations and their shareholders to the consumer, and thus to the poor to the extent of their share in consumption. In their view a sales tax is clearly more regressive than an income tax, and while measures perhaps can be considered to lessen the regressivity of the sales tax, those measures would complicate its administration. They would thus contend such a move to a sales tax at the Federal level would be inconsistent with efforts to relieve the poor of their income tax burdens. Congress may perhaps find itself at some later date involved in this debate which, again, is still pretty much confined to research circles and some business groups.

*Poverty and tax expenditures.*—Another facet of the attacks on poverty and the urban crisis is the realization that all levels of Government will be required to spend increasingly larger sums on social programs. This being so, the broad questions to be answered are the nature of these expenditures and the amounts to be spent. The relationship of the latter question to the tax system is clear, but even the first question has a direct bearing on the tax structure. For many of the suggested expenditures have a tax connotation.

There has been considerable academic interest and increasing business interest in our whole public assistance or welfare system. As an illustration, the recent "Report from the Steering Committee of the Arden House Conference on Public Welfare" states that:

"The present system of public assistance does not work well. It covers only 8 million of the 30 million Americans living in poverty. It is demeaning, inefficient,



inadequate, and has so many disincentives built into it that it encourages continued dependency.

"It should be replaced with an income maintenance system, possibly a negative income tax, which would bring all 30 million Americans up to at least the official Federal poverty line. Such a system should contain strong incentives to work, try to contain regional cost of living differentials, and be administered by the Internal Revenue Service to provide greater administrative efficiency and effectiveness than now exists."

Other groups or individuals have also called for an income maintenance system, as a complement to or perhaps as an evolution of an improved welfare system. The President's Committee on Income Maintenance is now considering this whole subject.

Essentially an income maintenance system is an expenditure program, even when it has the name and design of a negative income tax. For a negative income tax calls for payments to people below a designated level of need. The payments by the Government decrease as the individuals' incomes come closer to that level. Once they reach that level and the individuals become taxpayers, they have passed from the negative tax stage (payments of money to them) to the positive or traditional income tax stage (payments of tax by them). The degree of association to the traditional income tax depends on the relationship of the level of need, below which payments are made by Government, to the levels (determined by personal exemptions and the minimum standard deduction) governing positive income tax payments; the extent to which the "negative income" (the amount by which actual income falls below the level of need) is measured by concepts and definitions of income now used in the income tax; and the extent of participation by the Internal Revenue Service in the administration of the payments to the individuals.

Intense exploration of the income maintenance line of approach—how would it be administered and effectuated, what is the effect on incentives to work, what is the relationship to welfare programs—will clearly be helpful to the Congress when it comes to consider such proposals. The need for intense exploration is increased by the fact that there are competitors for the large expenditure dollars involved in that line of approach. One competitor, for example, has the general name of "tax sharing" to cover a variety of measures by which Federal tax revenues would be allocated in the large, with as few restrictions as possible, to States and (or?) local governments. Under this approach one proposal is to automatically allocate a percentage of the Federal individual income tax base each year to State and local governments. Other proposals operate indirectly by providing for a substantial credit against Federal individual income tax liabilities for State income taxes (and perhaps other forms of State tax) thereby permitting the States to use and raise these taxes since their impact will be borne by Federal revenues to the extent of the credit.

In addition to the competitor of tax sharing, there is the competitor of direct Federal expenditures for specific purposes, such as slum clearance, urban transportation, manpower training, rental housing, health services, education, pollution control, and so on—the whole range of present programs and those pressing to get on the existing list.

However the priorities come out, expenditure programs require funds. Which ever route or combination of routes is chosen, the quantitative impact on budget policy and on tax policy is obvious. The sums involved are very large, but so are the resources of the United States. Each year our growth at full employment increases our total Federal revenues, including the trust fund taxes, by \$12 billion—an asset which underscores the vital need to remain a full employment economy. Hopefully, the post-Vietnam climate will permit defense expenditures to drop to lower levels, thereby releasing budget space so to speak to these domestic areas. We will have to carefully weigh the balance to be struck between the levels of Federal tax burden, and thus the consequent amount of Federal expenditures, and the income of the private sector. This balance between private sector and public sector will involve many considerations—the combination of profit incentives, savings and consumer demand needed to achieve a continuing full-employment economy; the degree to which the private sector can effectively participate in solving our urban crisis and other social problems; the degree and rate at which Federal funds can be wisely spent.

In making these decisions we should keep in mind that taxes absorb a smaller portion of gross national product in the United States than in any other in-

dustrialized country with the exception of Japan and Switzerland—in 1966 it was 28.9 percent of GNP in the United States compared to, for example, 38.6 percent in France, 34.8 percent in Germany, and 31.3 percent in the United Kingdom. We rank about twelfth among the industrialized countries. (This is not the place to consider whether there is a clear association between the level of taxes and the rate of growth in these economies—a recent study concluded that the data permit no clear-cut support or refutation of any deductive argument one chooses to pronounce about that relationship. And thinking back to the earlier discussion on sales taxes and poverty, there is the same lack of data on the relationship between the proportion of direct and indirect taxes and growth rates. While many in the United States are fond of pointing to the greater proportion of indirect taxes in European economies and saying we should emulate them, there is just as much cause on grounds of economic growth (and more on grounds of equity) to say they should emulate us.) But an interesting statistic not usually considered is that, with defense expenditures excluded, the United States spends considerably less of its tax revenues on domestic programs than do those countries.

We cannot measure the welfare of the American people by the smallness of the taxes that they pay. At the present time they would be treated ill if we were to hold taxes down and forgo the 10 percent surcharge but leave them with accelerating inflation, climbing interest rates, an unstable boom, and a weakening of our international economic and financial position. And in the future they will be badly served if we were to press for lower and lower tax burdens but leave our country with the unfairness and ills of poverty and with the urban neglect and other social blights that we see today.

*Expenditures and efficiency—and tax incentives.*—Any sober appraisal of our needs in the future will certainly enforce the view that there is no room for wastage and inefficiency in our expenditure programs. Our resources are very large but not so large that they can be spent wastefully. Expenditure control in the sense of a careful appraisal of the costs and benefits of alternative programs must be a constant feature of our budget policy. And we must clearly learn more about techniques to measure the costs and benefits of social programs to enable us to apply such expenditure control wisely.

A significant part of expenditure control must be a willingness to openly recognize the amounts being expended by Government, and not to bury amounts by disguising them. The Federal Government can expend funds in many ways—through direct grants, through guarantees, through loans, through interest subsidies, and through tax incentives and preferences. Unless the Federal cost is identified no matter what the route, then there will inevitably be a drive to use the route that keeps the cost hidden.

The interest expressed in some quarters today for tax incentives to cure social problems can dangerously weaken our ability both to control Federal expenditures and to make them efficient, in addition to the damage it would do to our tax structure.

We of course do have tax subsidies presently existing in our tax laws. I have elsewhere observed that through deliberate departures from accepted concepts of net income and through various special exemptions, deductions and credits, our tax system does operate to affect the private economy in ways that are usually accomplished by expenditures—in effect to produce an expenditure system described in tax language. I called these items “tax expenditures,” and indicated that the amounts spent—i.e., the tax revenue lost—through these tax expenditure programs should be set forth in a meaningful way in the Federal budget. We would thereby be able clearly to see what are the total Federal funds going to the various activities affected, and not just the amounts shown in the Budget as direct appropriations and expenditures. For these tax expenditures can be classified along customary budgetary lines: assistance to business, natural resources, agriculture, aid to the elderly, medical assistance, aid to charitable institutions, and so on. Moreover, the amounts involved are quite large, reaching in several of these areas into the billions.

Since the tax expenditure programs are imbedded in the revenue side of the Budget and their cost is not disclosed, they go essentially unexamined for long periods, in contrast with direct expenditures. Their efficiency, in the sense of benefits obtained for Government and the public as compared with amounts expended, is thus not compelled to meet the rigid tests we are now developing and applying to direct Budget expenditures. They are not affected by Con-



gressional efforts to obtain "expenditure reduction"—they are outside the scope of the \$6 billion reduction in the pending tax bill. They thus fall in the class of the uncontrollable expenditures of Government. I doubt that any of these special tax treatments could stand the scrutiny of careful program analysis, and I doubt that if these were direct expenditure programs we would tolerate for very long the inefficiencies that such program analysis would reveal.

Moreover, these inefficiencies have serious ramifications apart from the budget. They have caused some activities, such as building construction and ownership for example, in many cases to be engaged in solely on an aftertax basis. But a business in which the before-tax profit is low or meaningless and which becomes attractive only because special tax treatment for that business makes the aftertax profit quite attractive must surely give us pause as to the justification for the tax incentive and the way it is provided. Especially is this so since the aftertax profit is attractive only for those who have income from other activities sufficient to permit full utilization of those special benefits. In large part this situation compounds our problems in the housing field, for it is difficult to achieve efficient use of direct Government assistance for high priority housing programs when the funds represented by special tax treatment continue to subsidize a whole variety of other building activities. There is irony in proposed programs to promote private housing for the poor and low income groups by providing tax benefits that would enable doctors and lawyers and other investors to become tax millionaires through these benefits. We should be able to do better than that in our use of Government funds, even in solving social problems.

This does not mean that private enterprise should not participate in social programs and earn a proper profit. Indeed, as many in business themselves feel, the best way for business to participate is through the profit motive. Nor of course does this mean that Government should avoid participation in these social programs. There is no inconsistency between the participation of business functioning as business—to earn a profit—and Government functioning as Government to obtain those business services which private consumers cannot themselves obtain. Government spends huge sums for defense materials and services and business participates as business in supplying the items sought. Our space program functions in the same manner. Neither requires a tax incentive to obtain the participation of business. If we do not grant tax credits to those who build space capsules when we need them, or planes, or guns, or other weapons, why must we grant tax credits to companies to provide the manpower training we need, or build the plants in the distressed areas, or build the houses we want? Why should business falter and forget its traditions and functions when it comes to its role in meeting our social goals? Why should it cease to stress fair profits and recompense as the basis of its participation and instead stress tax incentives?

We are entering into an era in which Government will be seeking to purchase new types of goods and services from the business community—in manpower training, in housing, in urban development, and so on. There is no reason why Government and business should not seek to utilize and adapt for these fields the experience and techniques developed in achieving successful purchasing programs in defense, space and other areas of Government procurement. The President's recommendations on hard core unemployment follow this path. Moreover, other techniques can be devised. If a Government subsidy in the form of a grant is needed in connection with a project on which there is no direct Government procurement, then companies bidding on the project can state the subsidy they think necessary and the contract can go to the bidder who needs the lowest subsidy.

## Conclusion

I have attempted to describe some of the current events that could well affect the legislative involvement in the tax field in the years ahead. As in any other field concerning Government, issues are difficult to resolve and the solutions hard to shape. We clearly need all the data and analysis that can be made available to assist in meeting these problems. We in the Treasury do our best to prepare for the future and to see that information will be at hand when the legislative involvement occurs. But our resources are few indeed and our knowledge and wisdom have their limits.

The task of preparation is thus a task for all who have a concern for the wise solution and who have experience, information and insight to contribute to that solution. Among the great resources of our country is its diversity of talent and



experience in so many sectors and institutions—business, labor, Government, academic, foundations, social organizations, and many more—and the ability through so many avenues of calm interchange to explore and compare our knowledge. And so there is hope that in the tax field, as elsewhere, working together we will achieve the wisest solutions that our collective knowledge can provide.

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**Exhibit 28.—Remarks by Assistant Secretary Surrey, June 18, 1968, before the Computers and Taxes Conference, National Law Center, George Washington University, on a computer study of tax depreciation policy**

The Treasury Department in its tax activities has been steadily expanding the use of computer technology.

Over the years speakers from the Internal Revenue Service have discussed with you in considerable detail the use of computer technology for handling upwards of 100 million taxpayer accounts and for matching tax returns with information documents.

The computer is also being extensively used to develop estimates of the characteristics of our taxpaying population, which estimates must necessarily be an important background to tax policy decisions. At one level this has meant a mechanization of the process of developing Statistics of Income. At another level, it has involved the creation of models to simulate the taxpaying population under alternative tax laws. On a previous occasion I discussed with you our individual income tax model, which provides a flexible tool of analysis for investigating how tax burdens would be altered throughout the whole population of taxpayers under alternative changes in the tax law. Similar tax models have been created for the estate tax population and the corporation tax population. They have been of great assistance in our research on tax policy issues.

In another area we have become more deeply involved in the use of econometric models for forecasting the aggregate economy. Many of you are generally aware of the work done in this field as it has been carried forward through successively complex models, such as the Brookings-SSRC model. Our experience to date indicates the desirability of developing a family of relatively smaller models each designed to answer specific policy questions.

If econometric models are to be used for policymaking, they must have the capability of providing results quickly for a variety of policy inputs and for changes in exogenous variables. They also must be designed to produce quarterly data since policy positions must be reviewed and formulated more frequently than once a year.

Under these circumstances, very large econometric models which run into 100 equations or so appear to involve quite substantial technological problems in providing the necessary flexibility. Also, policymakers do tend to focus on a relatively limited set of variables that might be important to a particular policy problem, and we believe that somewhat smaller models adapted to specific problems seem to offer a greater prospect of providing the flexibility and the short turn-around time necessary for practical policymaking. Thus, in a particular situation where decisions about the investment credit might be pertinent, a model involving rather specific investment behavioral equations may be necessary. In other situations, a model which treats investment as largely exogenous might be quite satisfactory.

All of these areas emphasize in one way or another some aspects of the aggregate economy, and it is this multiplicity of circumstances in the real world that drives us to using computers.

**Depreciation study**

*General summary.*—I would like to talk today primarily about a use of computer technology to investigate in detail a more specific kind of tax policy issue, namely, depreciation for tax purposes. We are now preparing for publication later this year our 3-year study of this subject.

This study is of particular interest for several reasons. The subject matter itself, tax depreciation, has been a remarkably persistent discussion topic in tax policy. The methodology of the study represented, for us, a new kind of application of the computer. Finally, we think the study reaches a clear conclusion, something that cannot always be said about research.

We can pick up the perpetual debate on depreciation as of 1962. In that year the Treasury announced its depreciation guidelines, which provided suggested depreciation lives for business assets grouped into about 75 classes. These lives were considerably shorter than the lives most business firms had been taking for tax purposes under prior administrative practices and procedures.

Another part of the Treasury announcement in 1962 was the reserve ratio test, an administrative technique to determine that the tax life used by the taxpayer, even if it came from the depreciation guidelines, was realistic for him, that is, generally corresponded to his actual replacement cycle.

At all times during the Treasury consideration of this matter, the necessity for realism in tax depreciation writeoffs was always insisted upon for the long run. Nevertheless, in 1962 a 3-year moratorium on the application of the reserve ratio was provided, and in 1965 a tapered application of the reserve ratio test was allowed. In effect, taxpayers were given the temporary opportunity to lower their taxes by using the shorter guideline lives without a full application of the reserve ratio test. This opportunity was in the longer run conditioned on their using these tax savings, and the savings from the investment credit, also adopted in 1962, to increase their rate of modernization and thereby come into conformity with guideline lives. These lives were never intended to be provided or available to taxpayers without the *quid pro quo* of those taxpayers keeping actual replacement cycles commensurately short or reducing them accordingly. Tax depreciation was intended to be realistic. The reserve ratio test was designed to achieve this end, while avoiding the administrative difficulties prevalent prior to 1962.

In the last 6 years discussion about depreciation has focused on the Treasury's emphasis on realism in depreciation as implemented by the reserve ratio test. On one hand, that test was criticized as inefficient and capricious in its results. On the other hand, it was argued that in principle realism should not be a standard and that the guideline depreciation lives ought to be available to a taxpayer even if his own actual replacement cycle was considerably longer.

This two-handed assertion deserved serious investigation. A project was developed within Treasury to investigate this issue and in particular to focus on two basic questions:

First, does the need for tax equity and neutrality between similarly situated taxpayers justify a serious effort to keep depreciation deductions realistic?

Second, is the reserve ratio test an efficient indicator of the realism of the depreciation life for a particular taxpayer?

This study was carried out by Richard Pollock of the Treasury's Office of Tax Analysis with the assistance in model design of the Consad Research Corp. of Pittsburgh and New York. The study is now complete and will be published later this year as another in the series of Treasury Tax Policy Research Studies.

The study—in summary—confirmed the expectations and analysis behind the original 1962 depreciation reform. The answers that were reached on the above two questions are:

(1) Realistic tax depreciation is important from an equity point of view, in that a tax depreciation policy which does not insist on linking tax lives to actual replacement lives would result in an intolerable cost in terms of inequities between similarly situated taxpayers. This clearly suggests that the tax depreciation provisions of the Code should not be utilized for implementing tax incentive programs, since unrealistic depreciation would in turn result in the creation of unrealistic taxable income measurements.<sup>1</sup>

<sup>1</sup> We may note, as an aside, that this undesirability of the use of the depreciation deduction for investment incentive purposes does not mean that a tax system cannot involve such incentives if they are thought desirable. Under our present rules, the investment credit operates as an inducement to modernization and expansion of machinery and equipment. The difference in effect and operation of such a device from the use of depreciation policy to the same end is clear. The investment credit does give Taxpayer A who has purchased a new machine a tax rate lower than that of Taxpayer B who has not purchased a new machine, and it does so because it is designed to serve the national goal of expanding and modernizing our productive capacity through new machines. If Taxpayer B purchases a new machine, he also would get the credit. Unrealistic depreciation, however, would mean that if both taxpayers had bought new machines and both had the same actual replacement cycles—and thus had equally contributed to that national goal—still Taxpayer A by using an unrealistic shorter tax life would pay lower taxes than Taxpayer B. Or, if both are using the same tax life, but Taxpayer A's actual replacement life is longer than that but Taxpayer B's is the same as the tax life, then here also Taxpayer A would be receiving a lower tax rate without any larger contribution to the national goal.



(2) The existing reserve ratio test does serve as a fair and efficient administrative technique to enforce the correspondence between *actual* depreciation lives and *tax* depreciation lives which is necessary for the realistic and meaningful determination of taxable income. The study disclosed some relatively minor situations where this would not be the case, and these are now being remedied as a result of the study.

*The conceptual issues.*—Tax depreciation attempts to reach the same goal which good accounting depreciation seeks, namely, a reasonable and realistic distinction between the return of capital and the return on capital, so that income of a year can be meaningfully described. If, over the life of an asset, the excess of receipts over operating costs that is generated covers no more than the initial capital cost, then the asset has not generated net income.

But more detail is necessary. Both tax depreciation and accounting depreciation must spread the charge for depreciation over a number of years. Very clearly, a taxpayer obtains an advantage if he can obtain his depreciation deductions, that is, his tax-free income from the asset early in time rather than later. The reason for this is at the heart of the tax depreciation issue: time is money.

Obviously, you would not lend somebody a dollar today as a business arrangement if he promised to return only the same amount to you one year from now. You would not make an arm's length, interest-free loan. In effect, early depreciation—depreciation that is more rapid than realistic depreciation—is like an interest-free loan from the Government. As the result of being able to pay lower taxes in the early years of the asset's use in return for paying more taxes in the later years, the taxpayer taking depreciation early will have more funds available to him to invest in his business without any interest charge for those funds.

A taxpayer who actually replaces his equipment on a 10-year cycle would get the advantage of early depreciation if, say, a 7-year tax life was available to him without regard to that replacement cycle. He would have an artificial, tax-generated financial advantage over another taxpayer who replaces on a 10-year cycle and uses a tax life of 10 years.

But how much better off would he be? The measurement of this advantage over the long run under each of the many options for calculating depreciation and the different ways of measuring profits and effective tax rates is one main objective of the depreciation study.

Assume for the moment that these two taxpayers with 10-year actual lives are using straight-line depreciation and have a before-tax internal rate of return of 15 percent. In the case of the taxpayer who is conforming, i.e., actual 10-year life equal to 10-year tax life, his aftertax rate of return will be 7.3 percent. But the taxpayer who is using the 7-year tax life would thereby increase that 7.3 percent aftertax rate of return to 8.5 percent, a 16-percent increase in the aftertax rate of return.

The percentage increase in the aftertax rate of return resulting from a shortening of the appropriate tax life will vary with the circumstances. The greater the shortening, the larger the resulting percentage increase in the aftertax rate of return. The change illustrated here was a 30-percent reduction from 10 years to 7 years. While illustrative, it might be considered fairly representative of the difference in lives that would develop between identical taxpayers in a system of arbitrary depreciation lives unrelated to actual lives.

This analysis of the point that the timing of depreciation deductions can make an important difference in tax payments, and hence in financial consequences, is standard in the economic literature. The analysis is typically worked out, however, in terms of simple models of one asset which entails only a few desk calculations. The more important conceptual issue that we needed to explore is how much of a difference in aftertax profits the timing of depreciation would make, in the long run, in typically complex business situations if the taxpayer's tax depreciation differed significantly from his actual replacement cycle. In the long run is this advantage largely washed out as taxpayers go through later years with largely depreciated assets?

Closely related to this question is the question of how will we in fact know whether the tax life and actual life match or not. The reserve ratio test was designed to answer this question and to give us this information. That test has been criticized, however, on the grounds that in typically complex business situations involving things like irregular growth, retirement dispersion, and the like, the test will give a large number of wrong signals and assert that a taxpayer is failing the test when actually his replacement cycle does in fact match his



tax life. It was also argued that on occasion the reserve ratio tests would pass a taxpayer when in reality he should have failed the test.

The exploration of these assertions—the testing of the reserve ratio test itself—is the other main objective of the depreciation study.

*The computer study of depreciation.*—The focus, then, of both of these issues comes down to: "How will things work out in typically complex business situations in the long run?" To investigate these issues, we had Consad Research Corporation design a business simulation model. It was designed to describe the experience of a business firm over a period of 50 years. The program was structured to permit the introduction of a large number of characteristics of this business firm, so as to give us some confidence that we had investigated our basic questions in all kinds of complex business situations.

The program calculated and printed out the actual reserve ratio for the firm year by year in a form that would indicate whether it passed or failed the reserve ratio test. It also printed out the yearly profitability of the firm on a before-tax and aftertax basis on a variety of profitability measures.

The study consisted of multiple runs of the model in differing situations to answer the two questions cited earlier: Does the absence of realism in depreciation tax lives generate serious inequities between taxpayers, and does the reserve ratio test accurately test the realism of a taxpayer's depreciation tax life?

Some descriptive detail on the business simulation is here appropriate to determine whether it captured the complexity of the real world.

Our business is first assumed to use a tax life equal to the actual life of the asset, and then the tax life can be set shorter than the actual life. Also, we have to assume some retirement dispersion. While, say, 10 years may be the average life, there may be only 30 percent or 40 percent of the assets—say, machine tools—acquired in any year which actually drop out after a 10-year period, with the other machine tools dropping out sooner or later than 10 years depending upon the nature of the retirement dispersion assumed. It is also necessary to assume various growth rates and growth patterns, and to assume various levels of estimated and realized salvage.

This information is required to simulate over time the depreciation base of a firm. But in the complex reality of the tax system there are many ways to compute the depreciation deduction from this base.

There are approximately eight different depreciation strategies involving different mixes of writeoff and asset grouping techniques that can be used by the taxpayer. The taxpayer could use item accounting, which is the form that usually shows up in illustrations, together with either the straight-line or double declining balance methods of writeoff. Or he could use closed end multiasset accounting, with straight line, double declining balance, or sum-of-the-years digits methods of writeoff. Or he could use open end multiasset accounting, with any one of the same three general writeoff patterns.

The model also needed to be endowed with assumptions that would permit it to generate a gross income against which to use the depreciation deductions. The particularly important set of assumptions here was a set which described alternative ways in which the productivity of each asset declined or remained stable during its useful life. Other assumptions specified debt-equity ratios, the cost of capital, and the like.

Such was the analytic model. Let me turn now to the answers that this model gave to our two main questions, starting with the question of the reliability of the reserve ratio test.

### Use of computer model to test validity of reserve ratio test

*Feasibility of the test.*—The feasibility of the reserve ratio test can be evaluated in terms of the number of, or the absence of, unwarranted failures—that is, a failing under the reserve ratio test by a simulated taxpayer whose tax life is in fact equal to his actual life, i.e., a conforming taxpayer, and therefore one who should not have failed the test. Similarly the test should not permit unwarranted passes for nonconforming taxpayers. If a comparison of the actual reserve ratio with the permissible reserve ratio generated over the period of simulation for any defined investment situation does not reveal any unwarranted failures, and few unwarranted passes, the reserve ratio test can be deemed to be a feasible and workable test, assuming that the range in variety of investment situations examined has been sufficiently wide and diverse to make that examination really meaningful.

One issue investigated therefore was whether a taxpayer whose replacement cycle corresponded to his tax life for depreciation would pass the reserve ratio test through all of the 50-year simulation period without suffering any unwarranted failure.

The rather mechanical and straightforward comparison of the array of actual and permissible reserve ratios in a particular simulated business investment situation could be obtained under the model as many times as was needed to investigate the possibility of unwarranted failures being generated by some combination of assumed real investment characteristics. For example, the assumed retirement dispersion and the assumed degree of irregularity in the growth pattern could be changed, alone or together, to determine if either one alone or in operation with the other could in fact generate unwarranted failures, as some of the critics of the reserve ratio test have maintained. Once the assumptions were changed and fed into the computer, a new array of actual and permissible reserve ratios would become available, thus permitting a new comparison. These comparisons were also varied to determine if there was some interaction between the length of actual life and the degree of retirement dispersion and degree of irregularity in growth pattern.

All these comparisons showed that unwarranted failures of the reserve ratio test never occurred after the buildup period of a closed end multiasset account. That test proved throughout all of the comparisons to be a reliable indicator of whether tax lives were conforming to actual lives.

Failures did occur when an apparently "conforming taxpayer" was using the open-end SYD method of depreciation. The factor here that triggers a failure of the reserve ratio test is that depreciation has been excessive because of a defect of this grouping method rather than because of an incorrect tax life. The reserve ratio failure is in fact warranted, because the grouping method provides excessive depreciation even when the tax life is correct. We are considering this problem, but as it stands at the moment, the benefits of the new guideline lives are being denied to any taxpayer using either the straight-line or SYD open end methods, so that this aspect of the reserve ratio test is irrelevant to the operation of the guidelines.

*Additional information relevant to the operation of the reserve ratio test.*—A point that deserves comment here is that under present rules the reserve ratio test is structured to provide a leeway of about 20 percent. This means that a taxpayer does not fail the test until his reserve ratio exceeds the value that it would be expected to have if the actual life was 20 percent longer than the tax life being used. As a consequence, if a taxpayer uses a 10-year tax life, the question arises whether he could deliberately and consistently take advantage of the 20-percent leeway by purposely keeping his replacement cycle at 12 years and still pass the test. The study indicated that in such cases it would be quite possible that the reserve ratio test would be failed. However, the failure would not be unwarranted since the taxpayer was in fact not conforming; i.e., he did in fact have an actual life which was 20 percent longer than his tax life. This means simply that the leeway should be used for its intended purpose of taking care of mechanical or random variations in the data, rather than being regarded as an invitation to stretch nonconformity as far as possible.

If a taxpayer doesn't abuse this leeway provision and instead uses a tax life approximately equal to his actual life, then the study shows he would not have to worry about suffering an unwarranted failure of the service ratio test even under some of the more severe combinations of irregular growth and retirement dispersion. The leeway here serves its intended purpose of protecting the *conforming taxpayer* from an unwarranted failure. And the actual simulations indicated not only that unwarranted failures do not occur, but also that the conforming taxpayer has an average margin of passage of the test which even exceeds the average leeway by an appreciable amount.

Finally, as respects the validity of the reserve ratio test, the study showed that a nonconforming taxpayer whose tax life is more than 20 percent shorter than his replacement cycle will rarely pass the reserve ratio test—that is, the test essentially does not permit unwarranted passes.

#### Use of computer model to investigate the equity issue

*Extension of single asset analysis to a multiasset growth situation.*—We saw that in a simple 10-year life single asset situation the reduction of the tax life from 10 years to 7 years could increase the aftertax internal rate of return from 7.3 percent to 8.5 percent (assuming that the before-tax rate of return



was 15 percent). This improvement in the rate of return is related only to this single asset, and would occur if the firm acquired the asset and bought no other asset either before or after this particular asset was retired.

Our problem here, again, was how does this single asset analysis work out in the long run in complex business situations? Many people approaching the depreciation issue have intuitively assumed that in the long run a taxpayer who uses up his depreciation rapidly will have to pay the piper. His depreciation basis will largely be gone and his depreciation deductions will quickly decline. These people therefore conclude that in the long run the tax advantage of rapid depreciation cannot be very great. Whether it is or not—whether this intuitive assumption is really correct—is the question we wanted to investigate in a systematic and thorough way.

The heart of a long run analysis of this question must be situations involving multiple assets plus growth.

One can obtain some feel for the impact of growth by considering our simple example in the context of a multiasset growth situation. That is, assume that one taxpayer has a stock of 10-year assets whose total amount was growing at about 5 percent a year. Assume also that he was depreciating these assets at the appropriate 10-year life and using straight-line depreciation. This conforming taxpayer's actual reserve ratio at the end of any year after the build-up period would be 51 percent (the buildup period refers to the first replacement cycle, when those machines bought initially would be expected to need replacement). That is, 51 percent of the taxpayer's total asset cost—his depreciation base—at any time would be represented by the accumulated depreciation deductions that had been taken on the assets on hand.

By way of contrast, take a taxpayer in an identical asset situation—namely, a stock of 10-year assets growing about 5 percent a year—but assume that this taxpayer is using a 7-year tax life for these assets, on the straight-line method. After the buildup period, his actual reserve ratio will be 65 percent at the end of any particular year. The difference in reserve ratio in these two cases amounts to 14 percentage points.

Even before the rate of return implications in the two situations are discussed, the continuing benefits going to the taxpayer using the 7-year tax life are obvious. The 14 percentage point difference in the actual reserve ratios means that the taxpayer using the 7-year tax life has recovered that additional amount of capital tax free. For him, the capital cost represented by his depreciation base is 65 percent recovered, while the depreciation base and related capital of the conforming taxpayer are only 51 percent recovered at any given time. An additional tax-free recovery of capital amounting to 14 percent of one's capital cost is significant on its face. With approximately a 50-percent corporate income tax rate the cumulative tax savings resulting from the rapid depreciation and consequent faster tax-free recovery of capital amount to about 7 percent of the capital cost.

We can see in this multiasset growth situation a new factor—a permanence to the advantage that persists over the life of the business. In the single-asset case the tax-free recovery created in the early years of the asset's life must be repaid in the later years. The recovery is thus in essence a loan—which is interest-free and hence an advantage—but this loan will have to be repaid later in the life of an asset as depreciation deductions decline. But in the multiasset case, especially with growth, the tax-free recovery and additional capital are in effect permanent, as long as the stock of assets remains at least the same size or grows. The loan description does not really fit this permanent addition to capital, unless one wants to call it a "permanent loan."

The explanation of this effect is straightforward: The pattern observed for the single asset case still persists for any single asset in the multiasset situation. However, in the multiasset situation at any given time there are always at least as many assets in their loan creation stage as there are assets in their loan repayment stage. And in a growth situation the assets in their loan creation stage outnumber the assets in their loan repayment stage. Thus, the more growth there is the larger this permanent tax-free recovery, expressed as a percentage of the firm's investment in depreciable assets.

It is obvious from this illustration that a relatively small amount of nonconformity has produced a relatively large advantage to the nonconforming taxpayer. This, on its face, suggests the need to enforce a rather close conformity by all taxpayers between tax lives and actual lives.



The 7-percent advantage illustrated in this particular example is by no means an extreme case. While we cannot here review the full array of results obtained in the study, in many cases the percentage was considerably higher.

Even if one is not concerned with the horizontal equity effects of such large permanent tax-free recoveries of capital accruing to some taxpayers while they are not accruing to others, the revenue effects for the Government should be a concern. Viewed from the aspect of Government revenues, that permanent tax-free recovery as a permanent grant—or loan if one prefers that term—out of Government revenues. The larger the tax-free grant going to some taxpayers, the less money a given tax rate structure is going to produce for the Government. This means that other taxpayers have to pay more taxes or the Government has to borrow more money.

*Tax advantage expressed in terms of effective tax rates.*—It would be helpful in placing this advantage of rapid depreciation in perspective if we could express the recovery of capital cost in terms of its impact on effective tax rates.<sup>1</sup>

<sup>1</sup> It may be helpful here to describe generally the methodology used in the study to develop the impact on effective tax rates. To do so we will first have to consider the effect on aftertax profit rates or rates of return. In the simple single asset case, we made assumptions about profitability and cash flow. Once such a rate of return assumption was explicit, it was then possible to calculate a stream of before-tax cash flow and a description of how the more rapid depreciation deduction and the applicable tax rate affected the aftertax rate of return. Let us turn now to the matter of aftertax profit rates in the multi-asset case.

At this point it is important to note that tax rates measured in the usual accounting sense are not helpful to determine the measure of this tax advantage obtained by the non-conforming taxpayer. According to the books of account, corporations pay in tax 48 percent of their taxable income (before credits). If one relates the total tax payment to the taxable income, as determined by whatever tax depreciation is used, then, of course, there would be no difference in tax rates so expressed between our two taxpayers—for each the tax rate is 48 percent. But this identity in tax rates as so described obviously obscures the fact that the two taxpayers who are identical except for the tax lives that they use, will actually be reporting different taxable incomes because of differing depreciation deductions. As an aside, as the Treasury has pointed out before, this effect of current accounting practice to make it appear that every corporation pays a 48-percent rate of tax when in fact corporations are actually paying at vastly different—and often quite lower—effective rates in terms of their actual profits, as a result of a variety of tax preferences, has become a serious obstacle to an awareness of the actual structure of our tax system.

To get away from this inadequacy of accounting practice to furnish realistic effective rates for purposes of comparison, it is necessary first to ascertain the before-tax and after-tax cash flows and from these to determine profit rates.

Before-tax cash flow is the total amount of cash available to the firm, after all the out-of-pocket expenses have been paid. (Thus, in conventional accounting terms, it is the sum of before-tax profits plus any allowance for depreciation; sometimes this total is referred to as quasi-rents.)

To determine aftertax cash flow we must calculate each year the depreciation deduction, and then by subtracting this deduction from before-tax cash flow we can derive the taxable income. Given this stream of taxable income over each of the years being simulated, together with the selected tax rate, enables us to determine the annual tax payments to be made. We then subtract those payments from taxable income to obtain the aftertax cash flow available to the firm. Any changes in tax depreciation will, of course, change the taxable income and thus the resulting aftertax cash flow. There can therefore be as many different kinds of time streams for aftertax cash flow as there are for depreciation deductions, namely, about eight.

From this information we have cash flows for taxpayers who are identical except for their using different depreciation lives for tax purposes. From these cash flows we want to calculate for each taxpayer a profit rate before and aftertax. The difference between the profit rate tax for any taxpayer and his profit rate before tax would be his effective tax rate.

Profit rates can be calculated from cash flows in different ways, and the study involves all the commonly used methods of determining profit rates. One of the important methods used in the study involves a comparison of before-tax and aftertax internal rates of return. An internal rate of return can be defined as that rate of discount which sets some stream of cash flow over time equal to some fixed amount of dollars at some starting point. As a start this concept is most easily considered in terms of a single asset. That is, assume an asset which costs a dollar and which generates or throws off a certain amount of cash flow before tax over a 10-year period of time. Some discount factor, such as 15 percent for instance, might be the internal rate of return before tax which sets that before-tax stream of cash flow equal to the one dollar initial acquisition cost.

Suppose that the same calculation applied to the cash flow aftertax, determined by using actual taxes paid, shows that the internal rate of return aftertax was 7.8 percent. Since 7.8 percent is exactly 52 percent of the before-tax internal rate of return of 15 percent, the calculation indicates that the taxpayer has paid an effective tax rate of 48 percent. Put differently, his before-tax rate of return was reduced by 48 percent as a consequence of the tax payment. Thus a comparison of before-tax rates of return with aftertax rates of return determined by actual tax payments made, enables us to derive the actual effective rates of tax for the varying depreciation situations.

A taxpayer using a depreciation tax life shorter than the actual life will find less difference between his before and aftertax rates of return, i.e., he will have a lower effective tax rate than will the conforming taxpayer. This difference in the effective tax rates of these two taxpayers is the measure of the tax advantage that would go to the non-conforming taxpayer, in the absence of the enforcement of a link between tax lives and actual lives, and hence is the measure of tax inequity in nonconforming depreciation.

The model indicates that over the long run, as well as the short run, the use of nonconforming tax lives can have a large impact on effective tax rates. Very commonly the opportunity to use a tax life shorter by 30 percent than the actual life will produce an effective tax rate, on the income from the assets, which is lower by as much as 15 percent. Thus, a 48-percent effective income tax rate can be reduced to a 41-percent effective rate. Or, put another way, the use of the shorter tax life means in effect a doubling of the investment credit for the nonconforming taxpayer.

If realism in depreciation tax lives is not enforced, it will not be at all uncommon that one taxpayer will be replacing at the guideline tax life but a competitor will be using a tax life only 70 percent as long as his actual life. If so, the benefit that would be conferred on the nonconforming taxpayer would be a reduction in its corporate tax rate on the profit from the assets twice as large as the tax rate reduction granted all corporations in the 1964 Act.

The study examined this difference in effective tax rates in a wide variety of situations.<sup>1</sup> Some range of difference was apparent, but the basic pattern was quite clear. Very rarely did 30 percent nonconformity produce a tax benefit as small as a reduction of 5 percent of the tax, and under some combinations of fact situations and profitability definitions the difference was over 20 percent—which would mean a tax rate of 38 percent.

Thus, nonconformity in depreciation lives does not catch up with itself. The intuitive assumptions described earlier about the long-run effects are not valid. Instead, such nonconformity in realistic business situations is a continuing source of different tax treatment and the differences do not wash out over time. These calculations regarding effective tax rates described those rates over a 50-year period.

The study thus furnishes a measure of the tax advantage derived over the long run by using tax lives at variance with actual lives and thus securing rapid depreciation. Moreover, it permits this measure to be expressed in terms of effective income tax rates on the profits earned by the assets involved. This enables us to describe the advantage in terms of subjecting one taxpayer to a 48-percent tax rate, and another to a 41-percent tax rate, and still another to a lower rate, and so on. No one has advocated that we draw up a corporate tax rate schedule which would so capriciously subject identical taxpayers to such differences in tax rates. The study shows that this would be the actual, albeit hidden, result of permitting nonconformity in depreciation tax lives.

There appears to be no reason to support the discriminatory reduction of taxes for particular taxpayers by such large amounts. Since we have better ways of implementing fiscal policy, tax depreciation policy should not vary with business cycles.

A fair measure of taxable income in a recession is a fair measure in an inflation, as well as being a fair measure when the economy is in equilibrium.

## Conclusion

*Future study and use of the depreciation study computer model.*—It can be a great advantage for an income tax structure to have a rational method of handling depreciation that provides both great flexibility to taxpayers in choosing tax lives that they consider realistic, under their attitudes as to asset use and obsolescence, and a reliable objective technique by which taxpayers and administrators may measure the conformity of those lives to the actual replacement policies of the taxpayer so that enforcement of realistic depreciation can be readily secured. This study points to the conclusion that the guideline life approach coupled with the reserve ratio tests are techniques which meet these standards for a rational depreciation policy.

It must be noted that this study—as do the guideline lives and the reserve ratio test to which this study relates—deals with depreciable lives. The study does not tell us whether, in a given situation, accelerated depreciation or straight-line depreciation more properly measures the allocation of depreciation deductions over the tax life. It would be helpful to continue this research in the depreciation area by studying certain aspects of these accelerated methods. For

<sup>1</sup> The study also tested the difference on the basis of alternative definitions of profitability. Some businessmen, for example, calculate the profitability of an investment in terms of the number of years it will take for the cash throwoff to equal the capital outlay. Effective tax rates were also computed by comparing this profitability measure, called the payoff period, on a before and aftertax basis.

example, is accelerated depreciation a proper method in a lease situation, in which the taxpayer has himself chosen a stream of receipts to provide a recovery of capital whose timing is clearly at variance with the timing of capital recovery which the accelerated methods presuppose?

This brief review of the Treasury depreciation study may help to indicate something of the diversity and the complexity involved in quantifying some of the issues being discussed in the tax depreciation field. The data that I have referred to today, and even the data that are summarized in the depreciation study itself, are only examples of the types of quantification that can be produced by this model of business behavior and the computer program which implements that model.

After the study is published, we would appreciate any evaluation of the methodology or of the particular conclusions drawn from the results presented in the study. The detailed study, when it is available, will provide quite specific explanations which other researchers can use to extend the analysis. The tax depreciation area is one of the more technical and involved areas that policy officials, tax analysts, and practitioners have to deal with. Research and analysis will continue—and the model could be made available for those interested in the depreciation area. We feel that this study is a suitable guide for policymaking at this time. It will have served an equally important purpose if it raises the level of the dialogue in this difficult analytic and policy area.

We should always strive to pinpoint the crucial questions in policy areas by scraping away the slogans and mythology which can so completely obscure the essentials of the issues. It is our hope that this particular tax policy research study will help to define the real issues in the depreciation area as well as to supply, at least partially, an adequate answer to those issues. The very effort of providing more quantitative and objective answers to difficult but necessary questions may assist or stimulate others in providing even better answers. The quality of the answers, as in the case of the Treasury Tax Policy Research Studies, should be judged on the basis of the acceptability of the research methodology and the adequacy of the analysis rather than the support they provide to any preconceived positions, including those of the Treasury Department.

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**Exhibit 29.—Excerpts from remarks by Assistant Secretary Surrey, November 15, 1967, before The Money Marketeers, on the U.S. income tax system—the need for a full accounting; and Treasury Department Report “The Tax Expenditure Budget: A Conceptual Analysis”**

**EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY SURREY, ON THE U.S. INCOME TAX SYSTEM—THE NEED FOR A FULL ACCOUNTING**

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An income tax system of such strength and breadth of application [as the U.S. system] warrants a full accounting. It would seem but obvious that we should be fully aware of its content and scope, so that we could intelligently pass judgment on its effects. This being so, it is all the more surprising that there are gaps in the accounting that now obtains. These gaps exist both at the governmental level, in the way our Budget reflects the income tax, and at the level of the individual business, in the way financial accounting handles the impact of the tax. These gaps have serious implications for our understanding of the tax system.

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The recent Report of the President's Commission on Budget Concepts seeks to develop one comprehensive measure to reflect aggregate revenues. Its recommendation for the revenue and expenditures part of the budget would include all revenue sources—both general revenues and trust fund revenues—and would place reporting of the income tax revenues on an accrual basis. \* \* \*

The President's Commission on Budget Concepts also made recommendations regarding the budget treatment of expenditures, but one aspect was not considered. The aspect not considered—and this is reflected in all discussions of expenditures—concerns the Government expenditures made through the tax system. At first blush, such a phrase—Government expenditures through a tax system—seems



almost meaningless. A tax system presumably concerns itself with raising revenues rather than spending funds. But a closer analysis of our present tax system would reveal real substance to the phrase. Through deliberate departures from accepted concepts of net income and through various special exemptions, deductions, and credits, our tax system does operate to affect the private economy in ways that are usually accomplished by expenditures—in effect to produce an expenditure system described in tax language.

Let us take a simple example: The Federal budget for the Department of Health, Education, and Welfare has line items detailing expenditures, including trust fund expenditures, for old age assistance. But that budget contains no line item for the \$2.3 billion expended through the tax system to aid the elderly—under the special \$600 exemption, the retirement income credit, the exclusion of social security retirement benefits, and so on. The HEW budget also has line items for medical assistance expenditures, but no line item for \$100 million expended through the tax system by reason of the special exemption for sick pay paid to employees.

The budgets of the Commerce Department and the Transportation Department contain line items for expenditures under Federal programs for aiding business. But there are no line items for the very large amounts, reaching over \$1 billion, expended through the tax system either as tax relief, incentives, or assistance for a variety of business activities: for example, financial institutions, through special deductions for reserves; Western Hemisphere Trade Corporations, through special rate reductions; shipping companies and life insurance companies, through special deferrals.

The budget of the Interior Department has line items for natural resources programs, but no line items for the large amounts, also over a billion dollars, expended under the tax system to assist our natural resources industries, including timber, through expensing of certain capital costs, expensing in excess of cost under the treatment of depletion, and special capital gain treatment. The budget for the Agriculture Department has line items representing programs to assist agricultural activities, but no line items for amounts, over a half-billion, expended under the tax system through the expensing of certain capital costs, the availability of the cash method of accounting even if inventories are used, and special capital gains treatment of livestock.

The absence of line items in the budget for these tax expenditures—this lack of full accounting for our tax system—has many facets. To begin with, it lessens public understanding of significant segments of our tax policies. For the most part there are no line items in the Internal Revenue Service Statistics of Income delineating these items, so that in the absence of special studies the amounts involved are simply unobtainable. Indeed, many of these "tax expenditure" programs cannot be found in the Internal Revenue Code, so that unlike direct expenditure programs where the budget trails are relatively well posted, the "tax expenditure" trails are very often obscurely marked.

A large part of the tax benefits for the elderly rests on a very brief and cryptic administrative ruling of the Internal Revenue Service excluding social security retirement benefits from income, without citation of any authority for the result; much of the benefits for financial institutions rests on administrative rulings stating how the reserves against debts owed to banks shall be computed; a large part of the benefits to agriculture and natural resources also find their origin and even some of their current expression in administrative rulings and regulations.

When congressional talk and public opinion turn to reduction and control of Federal expenditures, these tax expenditures are never mentioned. Yet it is clear that if these tax amounts were treated as line items on the expenditure side of the budget, they would automatically come under the close scrutiny of the Congress and the Budget Bureau. But the tax expenditures are not so listed, and they are thus automatically excluded from that scrutiny. Instead, since they are phrased in tax language and placed in the Internal Revenue Code, any examination to be given to them must fall in the classification of "tax reform" and not "expenditure control." There is a vast difference between the two classifications.

It can be suggested therefore that we need a full accounting for these effects of the tax system. The approach would be to explore the possibility of describing in the Federal budget the expenditure equivalents of tax benefit provisions. We should not, of course, overlook the difficulties of interpretation or measurement involved here. Thus, just which tax measures can be said to fall in this category—in other words, which tax rules are integral to a tax system in order

to provide a balanced tax structure and a proper measurement of net income, and which tax rules represent departures from that net income concept and balanced structure to provide relief, assistance, incentive, or what you will for a particular group or activity. Also, once a tax item can be identified as falling in this second category, we must then compute its expenditure equivalent. Presumably this would be the amount of revenue lost, i.e., "spent," under the special tax treatment, and in a number of situations revenue statistics would have to be improved to give us this information.

This discussion is not to be taken as saying that all tax relief measures are bad—or that all are good—just as it is not intended to state that all Federal expenditure programs are bad or all good. This is not a qualitative discussion of tax preferences or, as some say, tax loopholes.

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Nor is my discussion intended to say that tax relief deliberately programed as a direct expenditure item would look the same. Indeed, a possible consequence of describing tax preferences as expenditure equivalents is that more efficient ways to achieve the objective may be developed. I cannot think of any responsible HEW or Budget Bureau official who would put together an expenditure program of assistance to the elderly that would in any way resemble the crazy-quilt pattern of our tax treatment of the elderly. Under that treatment half of the tax revenues spent go to people over age 65 on retirement whose annual income is over \$10,000 and hardly any goes to people in that age group who continue to work for their maintenance and whose incomes are far lower. Nor can I think of an agricultural expert who would put together a farm program under which the benefits would become greater the wealthier the owner and the less he relied on his farm activity as the source of his income. Indeed, I suspect that cost-benefit experts assigned to measure the efficiency of tax expenditure programs would have a fascinating time. Appropriate budgetary recognition of these tax expenditures would facilitate such cost-benefit studies.

At this point a word on the investment credit may be helpful to illustrate a different kind of tax device. This credit is a feature of our tax law designed to improve rates of return and to increase investment. We believe it is a sound provision which serves to achieve a better balance in a tax system which would otherwise impinge too heavily on the level of private savings and investment. Perhaps it could be cast as a direct Government expenditure, and the English have recently taken this approach. But there are very definite advantages in handling the sums involved through the tax system. The computation of the credit depends entirely on tax concepts, such as the basis for depreciation and depreciable lives, and being in the tax system its effect is limited to firms which, at least over the long run, expect to make profits. Also, by being in the tax system it remains quite neutral with regard to the investment to which it is applied; it does not involve extensive Government decisions as to which investments are particularly meritorious. It is spread very broadly over all business, agriculture, finance, the professions, and so on—the whole gamut of American enterprise.

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There are thus considerable gaps in the present accounting for our income tax system. It may be helpful to relate this description of these gaps to a current matter—the use of tax incentives to meet our social problems.

America faces many social problems that desperately require solution. A major part of these problems centers around the plight of our cities and their disadvantaged residents. One aspect of suggested solutions involves an increase in moderate and low income housing, with special emphasis on housing located in these areas. Another involves providing jobs for the disadvantaged, through manpower training programs and greater employment in business activity within these areas or the aided movement of the inhabitants to jobs outside the areas. Participation by private enterprise, especially large concerns, is considered helpful to achievement of these goals. But it is said that the likely rate of return from business activity involving that participation may not be adequate to enlist that participation. Hence it is proposed in some quarters that the rate of return be increased by some form of tax reduction in exchange for the participation desired. The tax reduction suggested generally involves a large credit against tax or special deductions.

This is one illustration of the tax incentive approach in the setting of social reform. Other illustrations may be found in other social objectives—pollution control, aid to education, assistance to rural areas, and so on.

Certainly no one can quarrel with these social objectives. In the past tax incentives were generally sought—and at times obtained—on the ground that a particular industry needed support. The crucial question of why that support was in the public interest was barely spelled out, if at all, and the details of proof were held to a minimum. But today the public interest objective is in the forefront, and needs no proving. And it is generally taken for granted that private enterprise participation will always be helpful. What is not shown is why the tax route is to be preferred over other means of inducing the desired participation of private enterprise.

The immediate leap to the tax solution serves only to stultify thinking about these social problems. Once the leap is made there is no opportunity to explore the details of the problems. Yet a great many useful questions can be asked: For example, as to low income housing in urban areas and jobs for the urban disadvantaged, just why has private enterprise not undertaken these tasks in the past? Is it that the immediate return is insufficient, or is it that the participation has been seen as only sporadic? What forms of private enterprise are best suited to the tasks? Is it a large industrial concern or a small indigenous business locally owned; is it manufacturing activity or service activity; is it an experienced builder or a concern new to the building field but with management know-how in other business fields? More crucial, what measures are needed to induce the participation—what rate of profit, what assistance in financing, what guarantees against loss, what assurance of a continued market, what other forms of protection against the risks that have hitherto restrained participation, and so on?

With these questions answered as best we can, the task is then imaginatively to search the arsenal of possible governmental action—if Government assistance is needed—to see which forms of governmental action can be most responsive, effective, and efficient. Here also the immediate leap to the tax route can only prove stultifying, for it tends to foreclose consideration of all other avenues of assistance. And yet experience has taught us that with respect to governmental assistance to a particular group or activity, the nontax route is far more likely to yield the better answer at a lesser cost. Moreover, the tax answer once enacted may well inhibit further useful thought about the problem. It would seem far better to let HUD or Commerce or Labor or HEW gain experience and flexibility through nontax solutions that can be varied and tested, than turn much of the task over to the Internal Revenue Service, which has no background of experience to use and for whom an increase in experience in the social area will not yield the productive return that it would in the other departments.

Our progress in space exploration is not built on tax incentives, but on direct relations between Government and business that bring forth the required participation by private enterprise. Our capsules are not propelled into space by the Internal Revenue Code.

In large part those who leap to the tax route recognize all this. But they assume that the nontax solutions will involve large Government expenditures and they fear that the appropriation door is shut or will not open very wide. Whatever may be the validity of those assumptions and fears as to any particular program, there is no reason to conclude that because the front door of appropriations is closed or narrow, the back door of tax reduction will open wide.

Those who are concerned with the level of Government expenditures are cognizant of the two doors to the Federal budget. They readily understand that a decrease in revenues through a tax expenditure has the same impact on the budget deficit as a direct increase in expenditures. Chairman Mills of the House Ways and Means Committee, for example, has said he considers such tax incentives as "a form of back door spending." He thus fully recognizes it is the door of his committee that is being knocked on as the entrance to the budget through tax incentives, rather than the direct route of Government assistance. And he can also recognize if that door opens for one or two tax incentives, it must inevitably stay permanently ajar for the wave of tax incentives that would follow.

Chairman Mills is on sound ground. For here also we reach the aspect of full and proper accounting. Our experience with the tax incentives of the past should give us pause before we add a new tax-route expenditure and then keep it buried in the Code away from public scrutiny. We have learned that the tax incentive of the moment becomes the tax reform target of many tomorrows. What can be said about tax incentives for these urban problems can also be said about tax incentives for our other social problems—pollution control, college education within the reach of all who are qualified, development of



rural areas and new towns, assistance to depressed areas, and so on. It is almost demeaning to our collective wisdom to say that every one of these problems will yield and yield only to the universal solvent of a tax incentive. And if they did, how would we solve the loss of our tax system that this maze of tax incentives would mean?

All of this is not to be taken—and this must be underscored—as saying the Treasury Department stands aloof from society and its problems. The Treasury clearly recognizes that a negative answer as respects the tax route equally does not solve a problem. It therefore has joined—and continually will join—the other departments and agencies in the active search for constructive solutions involving other forms of governmental assistance or action.

Indeed, the Treasury has found that the way to obtain imaginative and broad thinking about these social problems—to obtain real brainstorming—is to tell the groups concerned to forget their stereotype, first impulse solution of a tax incentive, to close the Internal Revenue Code, to bar their tax lawyers from the meeting—and then get down to the real task of analyzing the problems and thinking about the possible solutions. The results are always positive. Once the blinders of a proposed tax incentive solution are removed and the whole horizon of approaches is opened to exploration, we begin to appreciate that there are many constructive measures that can be taken outside of the tax system.

Our social problems are causing very large demands to be made upon the Federal Government. We are a wealthy nation and we certainly should be able to solve these problems. But even with our great wealth the solutions for all these problems will come more readily if our planning is efficient and sound. There are limits to the ways in which we can use our resources and those limits require careful expenditure control. Such control in the planning of a particular program, even one with a high priority, means other useful programs will not have to be starved.

We must therefore recognize that our tax system should not be used as a back door through which the dollars are to flow free from this careful planning. We need a much higher degree of accounting for the dollars that the tax expenditure programs which grew up in the past are now absorbing. We also should be careful not to leap to a new set of uncontrolled tax expenditure programs through a new set of tax incentives. This is especially so when there are adequate nontax measures at hand with which to attack these social problems. As a consequence, closing the back door of tax incentives does not mean that no solution will be provided. Rather, it means that the doors and windows are opened for constructive thinking about these other measures. This is the way to both social progress and a sound tax system.

## THE TAX EXPENDITURE BUDGET: A CONCEPTUAL ANALYSIS

### Introduction

As every taxpayer knows, income tax laws and regulations are complex. Much of the complexity derives from the numerous deductions, exemptions, credits, and exclusions allowed taxpayers in stipulated circumstances. Many, probably most, of these provisions exist because of the belief that they are directly related to the measurement of net income appropriate to an income tax. But others appear in the tax code because of the belief that, while not required to measure net income, the provision promotes some other objective, such as economic growth or a desirable expenditure pattern by taxpayers. In many areas the influence of the tax code on private economic behavior through these special tax provisions is of an amount which approaches and, in some instances, surpasses that of direct Government expenditures directed to the same objective.

Each of these special tax provisions reduces Government revenues available for other purposes, much as do increases in direct Government expenditures. In most cases, direct expenditures or loan programs exist as alternatives for achieving the same purpose that the special tax provisions are designed to accomplish. Our Federal budget as presently constituted, however, does not report those tax revenues which the Government does not collect because income subject to tax is reduced by these special provisions and the various special credits, deductions, exclusions, and exemptions which they provide. The budget in its present form thus understates the role of Federal Government financial influences on the behavior of individuals and businesses and on income distribution.

As a consequence of these special provisions in the tax system (some provisions are in the statutory tax law and others appear in regulations and rulings), the personal and corporate income tax bases deviate in numerous ways from widely accepted definitions of net income. Numerous kinds of income are excluded from taxation altogether while others are included only in part. Various types of expenditures by households give rise to deductions which are subtracted from income.

These special tax provisions and adjustments have been controversial in varying degree at varying times. In many cases, differences of opinion persist as to whether or not the effects of these deviations on income distribution and resource allocation are desirable. This special analysis is not concerned with the desirability of these provisions. Rather, it lists the major respects in which the current income tax bases deviate from widely accepted definitions of income and standards of business accounting and from the generally accepted structure of an income tax, together with estimates of the amount by which each of these deviations reduces revenues. It also arrays these tax provisions in the functional categories under which direct expenditures are classified in the Federal budget.

The purpose of this analysis is to present information on the basis of which each of these special tax provisions and their revenue cost can be compared with other such provisions which entail a reduction in revenues, and with direct expenditures or loan programs which result in outlays of a similar magnitude. The inclusion of such information, in addition to the ordinary budget accounts, can clarify and present more fully the role of the Federal Government in various functional areas. This information cannot presently be obtained from either the budget documents or the Statistics of Income published by the Internal Revenue Service.

It is useful periodically to review the impact on revenues of special tax provisions, much as direct expenditures are subject to annual or periodic review, since these impacts may change quite substantially over time. The amount of the revenue loss from the various provisions varies with changes in the economy and in tax rates. And the importance and priority of the objectives of the various special tax provisions change over time.

The use of a specific tax provision to support or subsidize a particular industry or economic activity may be a relatively inefficient or costly method to accomplish the objective, compared to a direct expenditure, the net cost of a loan program, or alternative tax provisions. In other words, the ratio of benefits to costs might be more favorable under an expenditure or loan program than by means of a special tax provision, or it might not. If these provisions, however, are not reviewed periodically to measure the benefits they achieve against the revenue loss, ineffective and outdated provisions may remain in the tax law for years.

In recent years there has been growing interest in improving program planning and evaluation by examining efficiency and effectiveness in expenditure examining programs. The technique of program budgeting has been given Government-wide application following an Executive order by President Johnson. In the fiscal year 1967 budget message (page 33), the President enumerated several basic steps directing the executive branch to develop and introduce a new planning-programming-budgeting system which will accomplish the following:

- “Be more concrete and precise about the objectives of our programs.
- Examine longer term problems and consequences more systematically.
- Consider more alternatives before reaching decisions.
- Link our planning efforts more directly to budget decisions.
- Get more effectiveness for the dollars we spend.
- Provide more benefits to the American people in more economical ways.”

Also, in his 1966 “Economic Report” (page 18), the President in discussing criteria for taxation referred to the need to apply the efficiency test to taxation, recognizing that tax provisions can also represent Government costs:

“In a fully employed economy, special tax benefits to stimulate some activities or investments mean that we will have less of other activities. Benefits that the Government extends through direct expenditures are periodically reviewed and often altered in the budget-appropriation process, but too little attention is given to reviewing particular tax benefits. These benefits, like all other activities of Government, must stand up to the tests of efficiency and fairness.”

### Conceptual framework

The special tax provisions take many forms. Under some, certain types of income are excluded from taxation, a few examples being interest on State and local gov-

ernment bonds, half of realized long term capital gains, social security benefits to the aged, and employer payments for fringe benefits, such as hospitalization, surgical, and group life insurance premiums. Other special tax provisions are in the form of deductions for certain personal expenses, such as charitable contributions, medical expenses, and interest payments. Other special deduction provisions allow business expenditures in excess of actual cost (percentage depletion, certain bad debt reserves) or earlier in time than the cost would become an expense under business accounting (agriculture, research and development, exploration and discovery of natural resources). Other special provisions provide a lower effective tax rate than is generally applicable, such as the lower statutory rate on Western Hemisphere Trade Corporations and the lower ceiling rate on long-term capital gains. Still other provisions take the form of tax credits (retirement income credit, investment credit).

Most of these special tax provisions are designed expressly to achieve objectives similar in nature to those of direct Government expenditures or loan programs. In each functional area, the Federal budget includes direct Government expenditures, direct Government loans, loans insured by the Government, and loan subsidies which have similar though perhaps not identical objectives. In each of these areas, such direct spending or loan programs would be an alternative method to accomplish the purpose which the special tax provision seeks to achieve or encourage.

We can examine several of these tax provisions to indicate how "tax expenditures" are alternatives to direct expenditures or Government lending programs. As a first illustration, consider the provisions which benefit the aged. The Federal budget lists under the functional category of "health, labor, and welfare" large direct expenditures including the social security and medicare trust funds for the aged. But the budget contains no item to show the \$2.3 billion expended through the tax system to aid the elderly through the retirement income credit, the additional \$600 exemption, and the exclusion of social security retirement benefits. The same assistance could be achieved by additional transfer payments to the aged rather than by tax provisions.

As another illustration, commerce and transportation shows almost \$8 billion of direct expenditures and net lending for fiscal year 1968. However, the budget does not reveal the additional amounts which aid business through various tax relief, tax incentive, and other tax provisions. These special provisions assist a variety of business activities, for example, financial institutions through special deductions for bad debt reserves, which reduce income subject to tax; Western Hemisphere Trade Corporations through special rate reductions; shipping companies through special deferrals; firms making new investments in machinery and equipment through the investment credit; small business through the lower rate on the first \$25,000 of taxable income and more generous depreciation deductions. Direct expenditures could be designed as substitutes for these tax expenditures. For example, "investment grants" could be paid to firms undertaking new investments, in place of the "investment tax credit."

Direct expenditures for natural resources, as another example, are itemized in the budget but no items are presented to cost out the assistance the tax system provides these industries by permitting the expensing of certain capital costs, the use of percentage depletion in excess of cost depletion, and special capital gains treatment for timber and for iron ore and coal royalties. Direct expenditures could be tailored to achieve the same purpose as these expenditures through the tax system. For example, subsidies might be paid to encourage exploration and development of selected minerals or good forest management.

In the field of housing, one of the major tax expenditures is the deduction allowed for interest paid on home mortgages, which now costs the Government about \$1.9 billion annually in income tax receipts foregone. The Government now provides direct subsidies to lower the interest rates on mortgages paid by buyers of certain homes. Such direct interest subsidy payments could be increased and broadened to achieve the same goal as the tax provisions. Alternatively, Federal programs to guarantee or insure mortgages on homes or to make direct loans could be expanded as an alternative to deductibility of mortgage interest for tax purposes.

The recommendations of the President's Commission on Budget Concepts provided that in the unified budget direct expenditures, credit programs, and the discounted present value of loan or interest subsidies should be included on the outlay side. These changes represent significant improvements in making



the budget a more comprehensive and useful presentation. To complete the budget picture, however, the Government expenditures made through the tax system need to be taken into account. Since these tax expenditures serve ends similar to those which are, or might be, served by direct expenditure programs or loan programs, it would be appropriate and instructive to juxtapose the tax provisions and the revenue costs they involve with the expenditures in the same functional category in order to understand better the purpose to which public resources are allocated. This study provides such a classification of tax expenditures together with estimates of the amounts involved. It treats the revenues "lost" through the special tax provisions as the cost of the tax expenditures involved.

Some of the special tax provisions cost revenue which is lost to the Government forever, resulting from those exclusions, exemptions, deductions, credits, or preferential rates which reduce the current tax base or the tax rates without any offsetting increase in the tax base later. Such provisions provide tax expenditures which correspond closely to direct expenditures.

Other special tax provisions serve immediately to defer the time when the taxes will be paid. For a particular taxpayer or a particular transaction or asset, the special provision may really represent a deferral of tax. However, for stable or growing businesses with an indefinite life, for the U.S. Government, and for the entire economy, the deferral of taxes continues forever under most of these provisions; in addition in an expanding economy the aggregate amount of deferred taxes tends to grow year after year. Examples of special tax provisions which cause deferral of taxes from the viewpoint of the individual taxpayers include: employer contributions to private pension plans and investment income of such plans; deductions of funds set aside by self-employed persons for their pensions; accelerated depreciation deductions on particular buildings; the portion of net income reinvested in ship construction and renovation by certain shipping companies; expensing of capital costs in agriculture and natural resource industries; expensing of research and development expenditures; and exclusion of nonrepatriated earnings of foreign subsidiaries.

Special tax provisions, which serve to defer but not forgive tax payments, might be compared to net lending in budget terminology. From the Government's view, the deferrals in the aggregate are for the indefinite future, perhaps permanently, depending in large part on the level and composition of economic activity. These special tax provisions are generally open-ended, with the extent and duration of their use largely at the taxpayers' option. For these reasons, the tax expenditure classification and tables which follow do not separate the special provisions which reduce taxes from those which defer taxes.

The study does not attempt a complete listing of all the tax provisions which vary from a strict definition of net income. Various items that could have been added have been excluded for one or more of several reasons:

(a) Some items were excluded where there is no available indication of the precise magnitude of the implicit subsidy. This is the case, for example, with depreciation on machinery and equipment where the accelerated tax methods may provide an allowance beyond that appropriate to the measurement of net income but where it is difficult to measure that difference because the true economic deterioration or obsolescence factor cannot be readily determined.

(b) Some items were excluded where the case for their inclusion in the income base stands on relatively technical or theoretical tax arguments. This is the case, for example, with the imputed rent on owner-occupied homes, which involves not only a conceptual problem but difficult practical problems such as those of measurement.

(c) Some items were omitted because of their relatively small quantitative importance.

Other features of our income tax system are considered not as variations from the generally accepted measure of net income or as tax preference but as a part of the structure of an income tax system based on ability to pay. Such features include personal exemptions and the rate schedules under the individual income tax, including the income splitting allowed for married couples filing joint returns or for heads of households. A discussion of income splitting and the dependent's personal exemption is thus considered outside the scope of this study on tax expenditures.

It must be recognized that these exclusions are to some extent arbitrary and some may prefer to add items that we have omitted or to omit items that we have

included. The immediate objective, however, of the study is to provide a list of items that would be generally recognized as more or less intended use of the tax system to achieve results commonly obtained by Government expenditures. The design of the list seemed best served by constructing what seemed a minimum list rather than including highly complicated or controversial items that would becloud the utility of this special analysis.

An estimate of revenue cost is given for these special tax provisions. The estimate is for fiscal year 1968, to allow a comparison with the budget expenditures and net lending for that year.<sup>1</sup> All estimates are for revenues "lost" on an annual basis.

The estimates of revenue foregone because of the tax expenditure features of the present tax law are, in general, based on the assumption for estimating purposes that such provisions never existed.

Another key assumption is that economic activity in 1967-68 would not have been affected by the absence of these special provisions. This, of course, is a simplifying assumption as it is practically impossible to estimate how the economy would have performed in the absence of all these tax provisions. In the absence of these tax benefits, no doubt there would be changes in Government direct spending and net lending to accomplish some of the objectives of the existing provisions.

No account is taken here of other taxes, such as payroll taxes, estate and gift taxes, excises, or tariffs. The assumption inherent in current law, that corporations are separate entities and subject to income taxation independently from their shareholders, is adhered to in this analysis.

### Tax expenditures—by functional category

We now turn to a rundown of the various special tax provisions, listing them under the sequence of expenditure categories used in the Federal budget. Some items, such as deductions for medical expenses, fit clearly under one functional heading (health, labor, and welfare). Other provisions, such as the lower tax rate on the first \$25,000 of corporate income, might be classified under or divided between two or more functional headings (such as agriculture, natural resources, commerce and transportation). In the following discussion, each special tax provision is placed under only one heading (commerce and transportation, for this last mentioned tax provision).

A summary of the estimated dollar amounts of the special tax provisions by functional categories is presented in table I. The grouping of all the special tax provisions by the various functional categories in the budget is shown in table II.

#### 1. National defense

*Exclusion of benefits and allowances to Armed Forces personnel.*—The Armed Forces supplement salaries of military personnel by providing quarters and meals on military bases, and off-base quarters allowances for military families; these items are not included in taxable income. In addition, virtually all salary payments and reenlistment bonuses to military personnel serving in combat zones are excluded from tax. The revenue cost is \$500 million. (As indicated earlier, all revenue costs are estimated on annual amounts for fiscal year 1968.)

<sup>1</sup>The revenue cost estimated for these special provisions is not in many cases the revenue change which would result in the first full year if these provisions were withdrawn. For one thing, replacement of some or all of these provisions by direct expenditures or lending programs might change the level and composition of economic activity. The revenue costs as presented for 1968 would, of course, vary over time generally with growth in the economy and changes in various parts of the tax base.

Also a realistic approach to any change in these provisions would provide in many situations transition arrangements which would effect the revenue change gradually over a period of years. Most of the tax provisions discussed here have been in the law for a number of years. Individuals and businesses have planned their activities in many ways to fit present law, such as compensation contracts, estate planning, corporate financing, and forms of business organization. A shift to direct expenditures or loan programs would usually not be a complete and full substitute for the specific taxpayers for the tax provision withdrawn. Thus, changes in special tax provisions would often provide transition rules, deferred effective dates, application to prospective events only, and other means for an equitable changeover to a new tax situation.

All the revenue estimates exclude the 10-percent surcharge, none of which was collected in fiscal year 1968.

## 2. International affairs and finance<sup>1</sup>

a. *Individual taxation.*—For citizens of the United States, income earned abroad up to \$20,000 for each complete tax year is exempted from taxation if the taxpayer is a bona fide resident of a foreign country for an uninterrupted period that includes 1 full tax year or, if he is present there 510 days during a period of 18 consecutive months. After 3 years, foreign resident taxpayers can exclude up to \$25,000 a tax year. The revenue cost is \$40 million.

U.S. citizens receiving income from sources in a U.S. possession may, under certain conditions, exclude such income from tax. The revenue cost is \$10 million.

b. *Corporate taxation.*—Domestic corporations conducting all of their business activities (other than incidental purchases) in the Western Hemisphere, deriving at least 95 percent of gross income from sources outside of the United States and at least 90 percent from the active conduct of a trade or a business qualify as Western Hemisphere Trade Corporations entitled to a special deduction. The net effect of this deduction is to reduce the eligible corporation's tax rate by 14 percentage points. The revenue cost is \$50 million.

Income of foreign branches and subsidiaries of U.S. corporations is subject to taxation abroad. Foreign branch profits are subject to U.S. taxes in the year earned. Profits of foreign subsidiaries are generally not taxable in the United States until they are repatriated as dividends to U.S. taxpayers. Domestic corporations receiving dividends from foreign subsidiaries may take a credit for foreign income taxes levied on the profits of the foreign subsidiaries out of which the dividends were paid. If the dividends are from a foreign subsidiary in an industrialized country (i.e., one other than a "less-developed country" as defined in the Internal Revenue Code), the domestic corporation must "gross up" the dividends to include in taxable income the amount of tax paid by the foreign corporation for which credit is claimed. In other words, the tax base in such a case is income before deduction of income taxes. On the other hand, if dividends are received from a subsidiary in a less-developed country, "grossing-up" is not required. Consequently, a domestic parent company secures the benefit both of a deduction of foreign income taxes (since dividends are after taxes) and a credit for foreign income taxes. The revenue cost of not requiring the "gross up" of dividends from less-developed country corporations is \$50 million.

U.S. corporations are not required currently to file consolidated returns which include the unrepatriated earnings of controlled foreign subsidiaries. The revenue cost of excluding these earnings is \$150 million.

Domestic corporations deriving the bulk of their income in U.S. possessions may, under certain conditions, exclude such income from tax. The revenue cost is \$70 million.

## 3. Agriculture and agricultural resources

Farmers, including corporations, may deduct certain costs as current expenses even though these costs represent inventories on hand at the end of the year or capital improvements. For example, the cost of producing crops or raising livestock not sold at the end of the tax year may be deducted as an expense even though no revenue has been earned. Certain capital improvement costs, such

<sup>1</sup> The foreign tax credit represents a special problem. Ultimately it arises from an international convention, which the United States has accepted, that income earned in one country by a citizen or corporation of another country should first be taxed by the country where earned and this tax should be recognized in some fashion, as by a tax credit by the country of citizenship or incorporation. (The U.S. law refers to citizens and residents; the law in other countries refers only to residents.) This convention precludes or limits the effects of taxing income twice as well as specifying the order of the taxes.

The order of the two taxes may be logically debatable despite the general convention. The U.S. share of taxes on international operations would be higher if the convention were to tax in the country of citizenship or incorporation first with a tax credit in the country where earned. Also one could argue that the scope of the foreign tax credit under present U.S. law differed from a logical foreign tax credit in various respects, such as extension to questionable income taxes or use of the overall limitation. These features of the foreign tax credit could result in identifying it as partly equivalent to a tax expenditure.

Another point of view is that the foreign tax credit per se is in total equivalent to a tax expenditure, since the credit can be considered as a removal of a barrier to foreign operations by U.S. businesses. Due to the complexity of the issues involved this study does not make any estimate of the part that could be called a tax expenditure, except as respects the absence of "gross-up" for dividends from less-developed country corporations stated in the text.



as the costs of preparing land and diversion of streams, are deductible during the year incurred rather than capitalized and depreciated.

Gains from the sale of draft, breeding, or dairy livestock held for 12 months or more are taxed as long-term capital gains rather than ordinary income although the costs of raising these animals are considered operating expenses and may therefore be deducted from ordinary income. Capital gain treatment also extends to the sale of orchards, vineyards, and comparable agricultural activities.

The revenue cost of this treatment is \$800 million.

The "gain" on the "cutting" of timber is taxed at the rates applicable to long-term capital gains, rather than at ordinary income rates. The revenue cost is \$130 million.

#### 4. Natural resources

Certain capital costs necessary to bring a mineral deposit into production may be deducted as current expenses rather than spread over the useful life of the property. Included in this category are the "intangible drilling costs" of oil or gas wells and the costs of developing other mineral deposits, such as mine shafts, tunnels, and stripping. The revenue cost is \$300 million.

Extractive industries may choose between two methods of recovering capital costs invested in the development of natural resources. Under one method, such outlays to the extent not immediately expensible may be deducted as "cost depletion" over the productive life of the property, much as other businesses may take deductions for the depreciation of capital goods. Alternatively, businesses in the extractive industries may deduct a flat percentage of gross income (but not more than 50 percent of net income) where such "percentage depletion" exceeds "cost depletion." Percentage depletion is not limited to the cost of the investment as is cost depletion. Cost for cost depletion means costs which have not already been recovered through expensing of exploration and discovery costs and intangible drilling costs. The fraction of gross income deductible under percentage depletion varies, with statutory rates ranging from 27.5 percent for oil and gas to 5 percent for certain minerals. The revenue cost is \$1.3 billion.<sup>1</sup>

Royalties from coal or iron ore deposits are treated as capital gains. The revenue cost is \$5 million.

#### 5. Commerce and transportation

There exist a variety of tax provisions which cause tax liabilities of businesses to be lower than they would be in the absence of the provisions.

a. *Investment credit.*—Under the investment tax credit most businesses may deduct from their tax liability an amount equal to 7 percent of the cost of investments in new machinery and equipment made during the taxable year. This investment credit does not lower the basis of the property for calculating the deduction for depreciation. The revenue cost is \$2.3 billion.

b. *Excess depreciation on buildings.*—To the extent that allowable depreciation for tax purposes exceeds the rate at which assets actually depreciate, business tax liabilities are deferred. Businesses may employ a variety of depreciation schedules for tax purposes, some of which cause a much larger part of asset values to be written off in early years of the asset's useful life than do others. These tax schedules differ from the depreciation schedules used by businesses in their financial statements. The revenue cost of allowing, for buildings only, depreciation methods for tax purposes that reduce asset value more rapidly than straight line depreciation (the method typically used in financial statements) is \$750 million,<sup>2</sup> of which \$250 million appears under housing and community development.

<sup>1</sup> In the absence of the expensing of exploration and development costs and percentage depletion, the first year revenue effect would be \$750 million and \$1.5 billion, respectively. The difference from the text estimates, which are based on long-run effect, is due to the circumstance that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

<sup>2</sup> This difference for a particular asset would narrow over time since depreciation taken during the early years of an asset's life cannot be taken during later years of the asset's life. However, for all depreciable assets together, with investment rising in an expanding economy, the difference between deductions under tax depreciation and under straight-line depreciation will increase in line with the rate at which investment expanded.

The tax depreciation allowed for machinery and equipment is thought to be closer to actual depreciation than that allowed on buildings. Also the code provisions relative to recapture of profits resulting from excess depreciation effects a full recapture as ordinary income of such profits on machinery and equipment, but recapture of only a declining and then disappearing proportion of such profits in the case of buildings. In view of this and the difficulty of estimating the divergence, if any, between depreciation allowed for tax purposes and actual depreciation, depreciation for machinery and equipment is not included here as a tax expenditure.

c. *Dividend exclusion*.—Individual income taxpayers may exclude \$100 of dividends from income subject to tax. The revenue cost is \$225 million.

d. *Capital gains—individual income tax*.—If the owner of appreciated capital assets dies, the capital gains tax is not applied to appreciation which would have been taxable had he sold the assets just before death. Heirs who receive appreciated property from the decedent and who subsequently sell the property are subject to capital gains tax only on appreciation occurring after they acquired the property. Thus the appreciation on assets held until death is never taxed under the income tax. The revenue cost of this treatment is \$2.5 billion.

As to realized gains, half of the gains from the sale of capital assets held more than 6 months is excluded from income, and in no case is the tax rate applicable to such capital gains allowed to exceed 25 percent. The revenue cost of this treatment is \$4.5 billion. The revenue cost of this treatment for both realized gains and gains at death is \$8.5 billion (including the \$2.5 billion listed above).

The cost of capital gain treatment under present law is complex for a number of reasons. It could be contended that:

1. full taxation of realized capital gains, even with full taxation at death, could result in greater postponement of lifetime gains;

2. with a different treatment of capital gains another approach to the corporate tax might provide for some integration of corporate and individual taxes by giving taxpayers who sell corporate shares some credit for taxes paid by the corporation on retained income which is reflected in share values;

3. averaging of capital gains would lower the indicated revenue cost.

Arbitrarily the cost of the present treatment of capital gains is shown as a range of \$5.5 billion to \$8.5 billion to recognize the complex issues involved.

e. *Capital gains—corporation income tax*.—Corporations are subject to a tax of 25 percent on capital gains, while the rate applicable to other corporate income is 48 percent of the excess of income over \$25,000. The revenue cost is \$500 million.<sup>1</sup>

f. *Bad debt reserves of banks and other financial institutions*.—Businesses are generally authorized to deduct as ordinary business expenses additions to reserves for bad debts where such reserves reflect historical experience of the firm or reasonable anticipations about the future. Commercial banks, mutual savings banks, building and loan associations, and cooperative banks, however, are permitted to set aside bad debt reserves based on stipulated fractions of deposits, of loans outstanding, or of taxable income before computation for bad debts. These special bad debt reserves typically greatly exceed actual loss experience. The revenue cost is \$600 million.

g. *Credit unions*.—Credit unions are exempt from Federal income tax. The revenue cost is \$40 million.

h. *Deduction of interest on consumer credit*.<sup>2</sup>—Interest paid on consumer credit is allowed as an itemized nonbusiness deduction for individuals. The revenue cost is \$1.3 billion.

i. *Expensing of research and development expenditures*.—Expenditures by businesses for research and development (R&D) are carried out to find new products or processes, to reduce costs, or for other purposes. In nearly all cases, benefits from such expenditures will accrue for well over 1 year. For tax purposes businesses may deduct all R&D expenditures in the year during which they are incurred, or they may amortize them over not less than 5 years. The revenue cost of current deduction compared to amortization over 5 years is \$500 million.

j. *\$25,000 surtax exemption*.—Corporations pay income tax at the rate of 22 percent on all taxable income plus a surtax of 26 percent on taxable income in excess of \$25,000. Each corporation therefore enjoys a surtax exemption of \$25,000. This exemption is intended to encourage small or new businesses. The revenue cost of this exemption is \$1.8 billion.

In some instances, a number of branch stores or chains are separately incorporated but are controlled by one parent corporation or individual. Each of the multiple corporations receives a surtax exemption. The revenue cost of this multiple surtax exemption compared with allowance of one exemption of \$25,000 for

<sup>1</sup> This cost does not include the cost of capital gain treatment listed under agriculture and natural resources.

<sup>2</sup> The deduction for interest on debts related to the production of income is a business deduction, appropriate as a deduction to obtain a net income measure. Deductions for interest for business purposes, such as operation of a farm or business or relative to personal investing, are thus not included as a tax expenditure item.

the corporate group is \$225 million. (This revenue cost is included in the above estimate of the revenue cost for the entire surtax exemption.)

k. *Deferral of tax on shipping companies.*—Certain companies which operate U.S. flag vessels on foreign trade routes receive an indefinite deferral of income taxes on that portion of their net income which is used for shipping purposes, primarily construction, modernization, and major repairs of ships. The revenue cost is \$10 million.<sup>1</sup>

## 6. Housing and community development

Owner occupants of homes may deduct mortgage interest and property taxes (but not maintenance outlays or depreciation) as itemized nonbusiness deductions. The revenue cost of deductions for interest paid by homeowners on the mortgages on their homes is \$1.9 billion.<sup>2</sup> The revenue cost of deductions for property taxes paid by homeowners is \$1.8 billion. The revenue cost of depreciation on rental housing is \$250 million. (See 5b above.)

## 7. Health, labor, and welfare

A large variety of direct expenditures and transfer payments are undertaken to contribute to the improvement of the health and welfare of families and individuals, both currently and in later years. A considerable number of special tax provisions serve related ends. The major tax provisions are listed below, with exclusions and exemptions first, followed by deductions.

a. *Provisions relating to the aged, blind, and disabled.*—Individual taxpayers age 65 and over may claim two personal exemptions of \$600 and a second \$100 minimum standard deduction (while persons under age 65 may claim only one of each). The revenue cost of these additional items is \$500 million.

Aged recipients of old age, survivors, and health benefits under the OASDHI program and of railroad retirement benefits are not required to include such benefits in computing tax liability. The revenue cost of this exclusion is \$525 million.<sup>3</sup>

Individuals over age 65 may claim a tax credit of up to \$228.60 (\$342.90 for couples) based on retirement income from all sources except social security benefits. In effect, the provision permits taxpayers with retirement income to exclude from taxable income the difference between \$1,524 (\$2,286 for couples) and any social security benefits they receive; the credit does not extend to wage income. The revenue cost of the retirement income credit is \$200 million.

The combined revenue cost of the three provisions just enumerated is \$2.3 billion. The joint revenue cost exceeds the sum of the three measures taken separately, since the absence of one provision would increase the residual significance of the others.

The blind qualify for two \$600 personal exemptions and an extra \$100 minimum standard deduction. The revenue cost is \$10 million.

b. *"Sick pay" exclusions.*—Certain payments financed by an employer in lieu of wages during periods of employee injury or sickness are excluded from the employee's income. The revenue cost is \$85 million.

c. *Exclusion of unemployment insurance benefits.*—Benefits paid by State unemployment insurance plans are excluded from taxable income. These benefits are financed by a tax on wages which is deductible to the employer. The revenue cost of the exclusion of these benefits is \$300 million.

d. *Exclusion of workmen's compensation benefits.*—Benefits paid under workmen's compensation following a work-related personal injury or sickness are excluded from taxable income. (These payments are primarily intended to replace earnings lost due to a work-related injury or illness, although some small part of the total payments is compensation for physical loss, such as an eye or an arm.)

<sup>1</sup> The revenue cost of the special treatment for controlled foreign subsidiaries engaged in shipping operations is included in the general cost of exclusion of income of controlled foreign subsidiaries listed under international affairs and finance.

<sup>2</sup> In general, we cannot trace borrowed funds precisely and thus the allocation of the revenue cost of the nonbusiness interest deduction between housing and community development and commerce and transportation is somewhat arbitrary. The fact that borrowing takes the form of a home mortgage does not always mean that the purpose of the mortgage is to finance the purchase of the home. Individuals may find their homes provide a type of collateral to secure a loan on more advantageous terms than with other or no collateral, even though the purpose of the loan may be to finance something else, such as a child's college education, medical bills, or a vacation. On the other hand, some other consumer nonbusiness borrowing may be done to enable a family to make a down payment on a home or finance major home repairs, without borrowing under a mortgage.

<sup>3</sup> This revenue estimate is based on treatment comparable to other pensions, and regards one quarter of the benefits as approximately the cost of employee contribution.



The employers' payments for workmen's compensation insurance are deductible in computing the employers' income subject to tax. The revenue cost of the exclusion is \$150 million.

e. *Exclusion of public assistance.*—Public assistance payments are excluded from taxable income. The revenue cost is \$50 million.

f. *Certain exclusions for pensions*

(1) *For employees.*—Employer contributions to qualified employee pension and annuity plans are deductible to the employer. Income earned by qualified pension and annuity plans on their investments, from both employer contributions and employee contributions, is not taxable. When a pension or annuity is paid upon the retirement of the employee, the pension or annuity is taxable to the employee except as to the percentage of the benefit purchased by his contributions, not counting in the latter interest earned on his contributions.

The revenue cost of the exclusion of investment income earned by all private pension funds, based on the corporate tax rate, is \$1.9 billion. The revenue cost of deduction of the total amount contributed by employers to these qualified plans, based on the corporate tax rate, is \$3.4 billion.

The revenue cost, based on the individual income tax rates applicable to employees, is \$0.7 billion as respects the investment income and \$1.4 billion as respects the employers' contributions.

The greater the extent to which the benefits are vested, the more relevant is the use of the individual tax rate in estimating the revenue cost. Taking this vesting into account, the revenue cost of the treatment of pension plans can be put at \$3.0 billion.

(2) *For self-employed persons.*—Self-employed individuals are permitted a deduction from taxable income for funds they set aside currently in qualified retirement plans. The deduction is limited to 10 percent of earned income or \$2,500, whichever is less. When the pension or annuity benefits are received after retirement, that percentage of benefits purchased out of tax-free income is subject to tax. The revenue cost of this deduction is \$60 million.<sup>1</sup>

g. *Exclusion of other employee benefits.*—In addition to the benefits already enumerated, a number of other employee benefits, the cost of which is paid at least in part by the employer, are also excluded from income subject to tax. The cost to the employer is deductible, and the benefit to the employee not taxable, in all of these cases. A list of these exclusions follows, with the revenue cost associated with each item:

	<i>In millions</i>
1. Premiums on group term life insurance (up to \$50,000 of coverage)-----	\$400
2. Employee death and accident benefits (up to \$5,000)-----	25
3. Premiums paid to qualified plans for hospitalization, surgical, and other medical care-----	1, 100
4. Reserve buildup under privately financed supplementary unemployment benefit plans-----	25
5. Meals and lodging-----	150
Total-----	1, 700

h. *Exclusion of interest on life insurance savings.*—Life insurance policies, other than term policies, generally have a savings element in them. Savings in the form of policyholders' reserves are accumulated from the premium payment and interest is earned on these policyholders' reserves. Such interest income is not taxable as it accrues and it is not taxable as an element of death benefits. The interest income, however, is taxable to the extent that the proceeds exceed net premiums when insurance is paid for causes other than death. The revenue cost of the interest exclusion is \$900 million.

i. *Deductibility of contributions for other than education.*<sup>2</sup>—Contributions to most nonprofit organizations devoted to charitable, religious, or certain other activities are allowed as an itemized nonbusiness deduction for individuals. The deduction is generally limited to 30 percent of adjusted gross income for contributions to organizations supported by the general public. Unlimited contributions may be deducted by those taxpayers (a relatively small number) whose contributions plus income taxes equal 90 percent of taxable income in eight out of the preceding 10 years.

<sup>1</sup> This estimate is based on the rules made applicable starting in 1968.

<sup>2</sup> Contributions for education are listed in the next section under the budget heading for education.

The revenue cost of the deduction for contributions for other than education is \$2.2 billion, of which \$1.2 billion is attributable to contributions to religious organizations and \$1.0 billion to contributions to other noneducational organizations.<sup>1</sup>

Taxpayers who contribute to charitable or educational organizations capital assets, usually securities, which have appreciated in value above their cost, obtain a deduction for the contribution at the appreciated value of the asset without taxation on the appreciation in value. The revenue cost of the deduction for such charitable contributions is included in the estimate just given. The revenue cost of the exclusion of the appreciation in value of the donated property is \$100 million.

j. *Deductibility of medical expenses.*—Medical expenses in excess of 3 percent of adjusted gross income and expenditures for prescribed drugs and medicines in excess of 1 percent of adjusted gross income may be deducted by individuals as itemized nonbusiness deductions. In effect, the deduction is permitted for those medical expenses above a floor based on percentage of income to cushion the effect of relatively large medical expenses not covered by insurance. Individuals may also deduct half of the premiums paid for medical care insurance up to a maximum deduction of \$150 per year, without regard to the 3 percent limitation. The revenue cost of both these deductions is \$1.5 billion.

k. *Deductibility of child and dependent care expenses.*—Deductions for a limited amount of expenditures for the care of children under 13 or incapacitated dependents necessary to enable the taxpayer to work are permitted under certain circumstances. If adjusted gross income of a family is \$6,000 or less, child care expenses may be deducted up to \$600 for one child, or \$900 for two or more children. The deduction is reduced, when both parents are in the home and able bodied, by the amount the combined income of husband and wife exceeds \$6,000. The revenue cost is \$25 million.

l. *Deductibility of casualty losses.*—Taxpayers may deduct as an itemized nonbusiness deduction the amount in excess of \$100 for each loss due to fire, theft, or other casualty to the extent not compensated by insurance. The revenue cost is \$70 million.

m. *Standard deductions.*—Individuals may itemize personal deductions for certain nonbusiness expenditures, such as charitable contributions, certain State and local taxes, interest payments on home mortgages and consumer credit, child care expenses, medical and drug expenses above a stated percent of income and casualty losses—items referred to earlier in this listing. The taxpayer is also given the option to deduct—instead of this itemization—a standard deduction of 10 percent of adjusted gross income or \$1,000 (\$500 if married and filing separately), whichever is less. The revenue cost of the 10 percent standard deduction is \$3.2 billion.

## 8. Education

a. *Additional personal exemption for students.*—Taxpayers may claim personal exemptions for dependent children over 18 who receive \$600 or more of income per year only if they are full-time students. The student may also claim an exemption on his own tax return, in effect providing a double exemption, one for the parents and one for the student. The revenue cost is \$500 million.

b. *Deductibility of contributions to educational institutions.*—Contributions to nonprofit educational institutions are allowed as an itemized nonbusiness deduction for individuals. The deduction is generally limited to 30 percent of adjusted

<sup>1</sup>The revenue cost of the unlimited contributions deduction, taking into account educational as well as other charitable contributions, is \$45 million. This amount is included in the revenue cost given in the text for contributions to charitable and educational organizations.

Corporations may take deductions for contributions to both charitable organizations and educational institutions. The revenue cost is \$400 million. In the absence of deductibility of contributions, however, presumably some of these would be treated as business expenses and thus this amount is not included as a tax expenditure.

<sup>2</sup>In the absence of the 10 percent standard deduction and most itemized nonbusiness deductions, the minimum standard deduction as presently structured would be taken by all taxpayers and its revenue cost would be relatively large. Under present treatment, the minimum standard deduction in keeping with its objectives is claimed almost entirely by low-income taxpayers and its revenue cost is \$300 million. The revenue estimate in the text assumes the minimum standard deduction is designed to assist only low-income taxpayers.

The minimum standard deduction is regarded as related in this study to the system of personal exemptions and thus a part of the structure of an income tax system based on ability to pay, rather than as a tax expenditure. (See "Introduction".)

gross income for contributions to organizations, including educational institutions, supported by the general public. The revenue cost is \$170 million.<sup>1</sup>

c. *Exclusion of scholarships and fellowships.*—Recipients of scholarships and fellowships may exclude such amounts from taxable income, subject to certain limitations. The revenue cost is \$50 million.

#### 9. Veterans' benefits and services

Veterans receive benefits under a number of programs providing for transfer payments, direct provision of services, and special access to credit. Veterans' pensions exclusive of retirement pay based on age or length of service are excluded from taxable income. The nontaxable payments include all pensions paid due to disability and all pensions paid by the Veterans' Administration to veterans over 65. The revenue cost is \$550 million.

#### 10. Aid to State and local government financing

The Federal Government through certain tax provisions in effect provides assistance to State and local governments. The deductibility of property taxes on owner-occupied homes involving a revenue cost of \$1.8 billion was listed above under housing and community development as an element of the tax system which provides support to promote housing, similar in many respects to certain direct expenditures and loan programs. This provision also aids States and, particularly, local governments in imposing taxes to finance their expenditure programs. Two other special tax provisions also aid State and local governments in meeting their expenditure commitments, but, unlike the deductibility of property taxes on homes, they do not fit clearly within any of the present functional categories now used in describing the scope of Federal budget expenditures. Thus we have added aid to State and local government financing as a separate budgetary heading, although there is no comparable heading in the Federal budget.

Interest income paid by State and local governments on debt obligations to individuals, businesses, and fiduciaries is not subject to tax under the Federal individual or corporate income taxes. As a result of the exclusion of such income from tax, State and local governments are able to sell debt obligations at a lower interest cost than could be possible if such interest were subject to tax. The revenue cost is \$1.8 billion.

Under the Federal income tax, individuals may take as itemized nonbusiness deductions State and local personal income, gasoline, sales, property, and other taxes in calculating income subject to tax. The deductibility of all these State and local taxes (excluding property taxes on owner-occupied homes) on nonbusiness returns<sup>2</sup> can be classified as support for the finances of State and local governments, rather than listed under any of the functional categories in the current budget. The revenue cost of these deductions is \$2.8 billion.<sup>3</sup>

<sup>1</sup> Corporations may take deductions for contributions to educational institutions, the revenue cost of which is included in the \$400 million for all corporate contributions in footnote 2, under 71, above. As some of these contributions may be claimed as business expenses which are deductible, this revenue cost is not included as a tax expenditure.

<sup>2</sup> For businesses owned by individuals, taxes other than income taxes are considered a cost of doing business and thus deductible in arriving at a net income figure.

<sup>3</sup> The breakdown of this total for State and local taxes follows:

Tax:	Revenue Cost (In millions)
Individual income tax-----	\$1, 350
General sales taxes-----	775
Gasoline taxes-----	400
Personal property taxes-----	150
Other taxes-----	125
Total -----	2, 800
Property taxes on owner-occupied homes (Reported earlier under housing and community development)-----	1, 800
Total revenue cost—all State and local nonbusiness taxes-----	4, 600



### The functional breakdown

The functional breakdown of regular budget outlays (including expenditures and net lending) and "tax expenditures" is presented in table I. In interpreting the amounts in that table, certain aspects should be kept in mind.

Within each functional category the "tax expenditure" total reports the revenue impact of all tax provisions for that function. Each of these tax provisions was discussed in the preceding section, and the revenue cost of each provision was presented separately from any other provision in the tax system, including provisions with a similar function. The revenue costs for each of these provisions taken separately are shown in table II, and the totals taken to table I.

A total of all the provisions is not given here or in the tables. The mathematical total would be an understatement of the true revenue cost of all the provisions taken together because the absence of any single provision would put a taxpayer into a higher rate bracket and thus cause the other provisions to have a larger revenue effect. An effort to take this interaction into account in the estimates of the separate items would require an arbitrary decision as to which provisions were taken into account before other provisions.

Also the special tax provisions undoubtedly have significant effects on the composition and perhaps the level of economic activity. If none of these provisions were in the law, the tax base, the budget, and the economy would be different. We have not attempted to speculate how the Federal budget and the economy might differ from what they now are.

The relative importance of ordinary budget expenditures and of tax expenditures differs sharply by function, as shown in table I. In the budget fields of space research and technology, interest, and general Government, tax expenditures make no direct contribution, although, as with ordinary expenditures, items classified under other budget headings may have an effect in these areas. Tax expenditures constitute a relatively small part of total budget resources used for national defense and for veterans' benefits and services, although the cost of the special tax provisions relative to these functions is \$1.1 billion.

Tax provisions control a large fraction of budget resources employed in several functional categories. With respect to commerce and transportation, a greater volume of budget resources is allocated by current special tax provisions than by direct expenditures. In certain functional categories, such as natural resources, housing and community development, and health, labor, and welfare, tax provisions constitute a major component of total Government activities.

Once again it should be kept in mind that the list of tax provisions is not intended to be exhaustive. In the case of each of the special tax provisions presented above, revenues are effected in connection with a specific form of private or Government economic activity or in connection with a particular form of expenditure. Many reasons for the enactment of these tax provisions may be found other than the promotion of the functional activity under which they are listed, just as a multitude of forces affect the approval of direct Government expenditures which are nonetheless summarized under specific functional headings. This analysis in no way reflects on the wisdom of such reasons. It is clear, however, that more efficient use of resources by the Federal Government is advanced if explicit account is taken of all calls upon budget resources, so that the importance of different budgetary objectives and the effectiveness of alternative uses, whether through direct expenditures, loan subsidies, or tax expenditures, may be fully understood, examined, and reevaluated periodically.

TABLE I.—*Estimated budget outlays including tax expenditures, fiscal year 1968*  
[Dollar amounts in billions]

Budget functions <sup>1</sup>	Total budget outlays		Tax expenditures	Total	Tax expenditures, as percent of budget expenditures plus net lending
	Expenditures	Net lending			
(1)	(2)	(3)	(4)	(5)	(6)
<i>Percent</i>					
1. National defense.....	\$76.5	(*)	\$0.5	\$77.0	0.7
2. International affairs and finance.....	4.3	\$0.7	.4	5.4	7.3
3. Space research and technology.....	4.8	0	0	4.8	0
4. Agriculture and agricultural resources.....	4.4	.9	.9	6.2	17.5
5. Natural resources.....	2.4	(*)	1.6	4.0	66.0
6. Commerce and transportation.....	7.7	.2	13.3-16.3	21.1-24.1	169.0-207.2
7. Housing and community development.....	.7	3.3	3.9	7.9	99.9
8. Health, labor, and welfare.....	46.4	(*)	15.6	62.0	33.5
9. Education.....	4.2	.4	.7	5.3	15.9
10. Veterans' benefits and services.....	6.8	.4	.6	7.7	7.7
11. Interest.....	13.5	0	0	13.5	0
12. General government and others.....	2.6	(*)	0	2.6	0
13. Aid to State and local government financing.....	n.a.	n.a.	4.6	n.a.	n.a.
Total.....	<sup>2</sup> 169.9	5.8			

NOTE.—The figures for outlays and net lending are the estimates for fiscal year 1968 in "The Budget of the United States Government: Fiscal Year 1969" (Washington, January 1968), p. 53.

<sup>1</sup> The functions coincide with the budget document except that the heading "Aid to State and Local Government Financing" has been added.

<sup>2</sup> Includes amounts for contingencies and certain undistributed intragovernmental payments which are included in the budget but not listed separately here.

n.a. Not applicable, since this is not a budget category.

\*Amounts differed from zero and fell in the range from -\$40 million (net repayment) to +\$21 million

TABLE II.—*Estimated tax expenditures, fiscal year 1968*

[In millions]

Tax expenditures by budget function	Revenue cost
1. National defense:	
Exclusion of benefits and allowances to Armed Forces personnel.....	\$500
2. International affairs and finance:	
a. Individual taxation:	
Exemption for certain income earned abroad by U.S. citizens.....	40
Exclusion of income earned in U.S. possessions.....	10
b. Corporate taxation:	
Western Hemisphere Trade Corporations.....	50
Exclusion of gross-up on dividends of less-developed country corporations.....	50
Exclusion of controlled foreign subsidiaries.....	150
Exclusion of income earned in U.S. possessions.....	70
Total.....	370
3. Agriculture and agricultural resources:	
Farming: expensing and capital gain treatment.....	800
Timber: capital gain treatment for certain income.....	130
Total.....	930
4. Natural resources:	
Expensing of exploration and development costs.....	300
Excess of percentage over cost depletion.....	1,300
Capital gains treatment of royalties on coal and iron ore.....	5
Total.....	1,605

TABLE II.—*Estimated tax expenditures, fiscal year 1968—Continued*

[In millions]

Tax expenditures by budget function	Revenue cost
5. Commerce and transportation:	
a. Investment credit.....	\$2,300
b. Excess depreciation on buildings (other than rental housing).....	500
c. Dividend exclusion.....	225
d. Capital gains: individuals.....	5,500-8,500
e. Capital gains: corporations (other than agriculture and natural resources).....	500
f. Excess bad debt reserves of financial institutions.....	600
g. Exemption of credit unions.....	40
h. Deductibility of interest on consumer credit.....	1,300
i. Expensing of research and development expenditures.....	500
j. \$25,000 surtax exemption.....	1,800
k. Deferral of tax on shipping companies.....	10
Total.....	13,275-16,275
6. Housing and community development:	
Deductibility of interest on mortgages on owner-occupied homes.....	1,900
Deductibility of property taxes on owner-occupied homes.....	1,800
Excess depreciation on rental housing.....	250
Total.....	3,950
7. Health, labor, and welfare:	
a. Provisions relating to aged, blind, and disabled:	
Combined cost for additional exemption, retirement income credit, and exclusion of OASDHI for aged.....	2,300
Additional exemption for blind.....	10
b. "Sick pay" exclusion.....	85
c. Exclusion of unemployment insurance benefits.....	300
d. Exclusion of workmen's compensation benefits.....	150
e. Exclusion of public assistance benefits.....	50
f. Treatment of pension plans:	
Plans for employees.....	3,000
Plans for self-employed persons.....	60
g. Exclusion of other employee benefits:	
Premiums on group term life insurance.....	400
Deductibility of accident and death benefits.....	25
Medical insurance premiums and medical care.....	1,100
Privately financed supplementary unemployment benefits.....	25
Meals and lodging.....	150
h. Exclusion of interest on life insurance savings.....	900
i. Deductibility of charitable contributions (other than education), including untaxed appreciation.....	2,200
j. Deductibility of medical expenses.....	1,500
k. Deductibility of child and dependent care expenses.....	25
l. Deductibility of casualty losses.....	70
m. Standard deduction.....	3,200
Total.....	15,550
8. Education:	
a. Additional personal exemption for students.....	500
b. Deductibility of contributions to educational institutions.....	170
c. Exclusion of scholarships and fellowships.....	50
Total.....	720
9. Veterans' benefits and services:	
Exclusion of certain benefits.....	550
10. Aid to State and local government financing:	
Exemption of interest on State and local debt.....	1,800
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes).....	2,800
Total.....	4,600

Exhibit 29A.—Other Treasury testimony published in hearings before congressional committees, July 1, 1967–June 30, 1968

### Secretary Fowler

Statement before the Committee on Ways and Means, January 22, 1968, on the President's fiscal program.



**Assistant Secretary Surray**

Statement before the Senate Committee on Foreign Relations, October 5, 1967, discussing tax treaties with Brazil, with Canada, and with Trinidad and Tobago.

Statement before the Senate Committee on Foreign Relations, April 30, 1968, on the U.S. income tax conventions with the Philippines and with France.

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**International Financial and Monetary Developments****Exhibit 30.—Communiqué of the Ministerial Meeting of the Group of Ten on August 26, 1967, London**

1. In order to complete the discussions which they had begun at their previous meeting in London on the 17th and 18th July, the Ministers and Central Bank Governors of the 10 countries participating in the General Arrangements to Borrow met again in London on 26 August under the chairmanship of Mr. James Callaghan, Chancellor of the Exchequer of the United Kingdom. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by representatives of the Organization for Economic Cooperation and Development and of the Bank for International Settlements, as well as by the President of the National Bank of Switzerland.

2. The Ministers and Governors had before them a revised Outline of a Contingency Plan for establishing a new facility, in the form of special drawing rights, which is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. This outline was drawn up at the Fourth Joint Meeting in Paris of the Executive Directors of the IMF and the Deputies of the Group of Ten. It was revised in the last few weeks by the Deputies to clear up some differences of view remaining after the July Ministerial Meeting.

3. The Ministers and Governors agreed on the text of an Outline of a Contingency Plan which they would be prepared to support at the forthcoming annual meeting of the Governors of the IMF in Rio de Janeiro. This Outline will now be considered by the Executive Directors of the Fund. It is expected that the Outline as approved by them will be embodied in a Resolution at the forthcoming annual meeting of the Governors of the IMF in Rio de Janeiro.

4. The Ministers and Governors concentrated their discussions at this meeting on a number of key features of the plan, on which differences had not previously been resolved. In particular, they agreed on the following points: Decisions on the basic period for, timing of, and amount and rate of allocation of the new drawing rights should be taken by the Board of Governors of the IMF by a majority of 85 percent of the total voting power. Members which use their new drawing rights would incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and duration of the use. For drawings made in the first basic period of five years, the principal rule of reconstitution should be that over any period of five years a member's net average use of the new facility should not exceed 70 percent of its total allocation. Participants should also pay due regard to the desirability of pursuing, over time, a balanced relationship between their holdings of special drawing rights and other reserves. The reconstitution rules would be reviewed before the end of this first period.

5. The Ministers and Governors had an exchange of views on the form and content of the Resolution to be submitted to the Governors of the IMF in Rio de Janeiro. The Ministers also considered ways of bringing rapidly to a conclusion the studies to be made in parallel with a view to making such changes and improvements in the present rules and practices of the IMF as would appear appropriate in the light of experience.

6. The Ministers and Governors agreed to meet again at the occasion of the annual meeting of the IMF in Rio de Janeiro.

**Exhibit 31.—White House press release August 28, 1967 (Statement by the President welcoming Secretary Henry Fowler, William McChesney Martin, Jr., and Under Secretary Deming)**

I am proud to commend you on a job done with distinction and to welcome you back from your brief but momentous visit to London. You have brought us over the hump of a long, difficult, and decisive international negotiation. You have returned with insurance that the world will experience orderly and adequate growth of monetary reserves in the years to come. The plan for creation of a new reserve facility at the International Monetary Fund marks the greatest forward step in world financial cooperation in the 20 years since the creation of the International Monetary Fund itself.

The details of the plan agreed upon in London are primarily the concern of financial experts. But the basic plan and what it represents advances the welfare of all Americans. This much should be clear:

—All the major industrial nations of the free world have shown their clear and sincere intent to build strongly and securely on the base of our current international monetary system.

—A firm foundation has been developed for another reserve asset to join gold, dollars and other reserve currencies as the needed means of payment for a world of growing trade and commerce.

—Gold and exchange markets can now reflect a new sense of confidence in the adequacy of future reserve supplies. With the United States unquestionably committed to convert gold into dollars at \$35 an ounce and with the availability of a new facility to draw on when needed, there can be no reasonable basis to fear a shortage of reserves.

Certainly no human being today can fully appraise the potential of this new development in the international monetary field. But we can be sure that this agreement will stand out in the history of international monetary cooperation. And so will your brilliant and determined efforts that made the agreement possible.

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**Exhibit 32.—Remarks by Secretary Fowler as Governor for the United States, September 26, 1967, at the Annual Meeting of the International Monetary Fund, Rio de Janeiro, Brazil**

I

I take special pleasure in participating in this Annual Meeting in Rio de Janeiro. I am very grateful to the Government and the people of Brazil for their gracious hospitality on this occasion. The beauty of this city, the breathtaking potential of this huge vibrant country, form a backdrop to the conference that can inspire us all.

The personal experience of viewing at first-hand the problems and potentialities of economic growth in Brazil and in her neighboring nations will, I trust, stimulate us all to assist in further efforts to reinforce international collaboration to support economic development.

I am very glad to see among us once again Governors for Indonesia representing that large and important nation, and to note that both the Fund and Bank have been able, in the past year or so, to play a helpful, constructive role in assisting Indonesia to deal with a most difficult and trying period of economic stabilization. I know that all of us wish the Indonesian authorities well in the courageous efforts they are making.

It is also a pleasure to welcome to membership in our organizations The Gambia, which last week completed the formalities to assume membership, and Botswana, whose membership resolutions are before this meeting of governors.

The Fund and Bank have had another highly successful year, the highlights of which have been recorded in their excellent annual reports. Mr. Woods and Mr. Schweitzer have summarized the activity of the past year in the Bank family and in the Fund and I will not retrace the ground they have covered so well.

But the events of the year in the usual pattern have been crowned by an unusual, indeed, unique achievement—the creation of a facility to meet the need, as and when it arises, for a supplement to existing reserve assets. This is to be established within the framework of the Fund, and is embodied in the Outline Plan for a Special Drawing Rights Facility which is the principal business of this meeting.

## II

Last year we urged joint meetings of the Executive Directors representing all member countries of the Fund and the Deputies of the "Group of Ten." It was our hope and trust that from these meetings a specific plan for deliberate reserve creation would emerge to become the subject of action by the Fund Governors at this Annual Meeting. This hope and trust have been fulfilled. The joint meetings have produced results which exceeded expectations and the United States is grateful to all the Ministers and Deputies of the Group of Ten and to the Executive Directors, Managing Director and staff of the Fund.

So at last we, at this meeting, come to the final and logical forum for an International Monetary Conference to consider what steps we might jointly take to secure substantial improvements in international monetary arrangements looking to the creation of a facility to provide, as and when needed, a supplement to existing reserve assets. Despite twenty-two years of steady progress since Bretton Woods, we need to assure a world monetary system conducive to a more rational and orderly expansion of global reserves. It would be a grave error, however, to assume that a strong, flexible and adequate international monetary system begins and ends with the assurance of adequacy of global reserves. There are other essential elements which require both international cooperation and a responsible approach of national monetary authorities. Two particularly deserve mention, and the assurance to my fellow Governors is that the United States will play its full part.

The maintenance of convertibility of the dollar and gold for international monetary purposes is also essential to a regime of stable exchange rates, which is a primary objective of the Fund recalled to us yesterday by the Managing Director in his notable address.

Nothing in the new arrangements on liquidity is designed to alter the present relationship between gold and the dollar. The U.S. commitment to the convertibility of the dollar into gold at \$35.00 an ounce remains firm. This has been, and will continue to be a central factor in the monetary system.

Another element deserving comment is the process of adjusting payments imbalances. International cooperation is important here also, for it is difficult without it to make this process work effectively in the complex world today. The continuing expansion of world trade and investment carries with it a corresponding tendency toward a higher absolute level of international imbalance. An improved adjustment process can serve to moderate this trend, and especially to reduce or eliminate persistent or excessive deficits and persistent or excessive surpluses.

The Fund report calls attention to some of the difficulties encountered in improving the adjustment process. At the present moment, in my own country there is clear need to apply fiscal restraint to what may otherwise soon become an expansion so excessive as to create serious inflationary strains and an increasing balance of payments deficit. Meanwhile, many countries of Continental Europe are still in need of stimulus to restore more satisfactory rates of economic growth. This would also reduce their balance of payments surpluses and thereby promote the international adjustment process.

A perfectly even rate of growth is not to be expected either in national economies or in world trade. The recent situation has been marred by sluggish advances in output—and in some instances, contractions—in a number of key industrial nations. If this state of affairs were to continue, or, worse still, to intensify, strains on the international payments mechanism would surely become severe. In particular, the world's primary producing nations would bear a heavy burden of adjustment.

In many of the industrial nations, a slower advance in output was consciously sought by national policy in order to reduce inflationary pressure. With the adjustment completed, the basis for a more enduring expansion has been laid. Essential as these adjustments in separate countries have been, policies of contraction in surplus countries must not be allowed to continue so long as to prejudice the prospects for an expanding volume of world trade, severely aggravating imbalances in international payments. A constantly expanding volume of trade, well-distributed regionally, is essential if acceptable levels of well-being are to be sustained in developed countries and promoted in the developing countries of the world.

A common theme in the recent experience of many industrial nations has been the monetary strains that are the consequence of too rapid internal expansion,



and too sparing reliance on fiscal restraint. In general, this year has seen some easing of the most severe financial strains. But, in turn, the welcome moderate reduction in upward pressure on money markets internationally has only been achieved, in the main, along with a slowing in the growth of output in some major industrial nations below the rates that are desirable and feasible from a long-term point of view. Despite this, long-term interest rates have remained high.

There will be a need to harmonize national economic and financial policies in the interest not only of balanced expansion at home, but also of a balanced expansion of trade internationally. We are all aware that both deficit and surplus countries share the responsibility for continuous efforts to improve the process of adjustment. Deficits and surpluses are after all two sides of the same coin. There should be no presumption that either the deficit or surplus country is the one that is delinquent. Cooperative action by both parties is essential.

Let me turn now to the main subject of interest—on the Fund side—at this Annual Meeting.

This 22d Annual Meeting has a special meaning for all Fund members. After nearly a quarter-century of experience with the Articles of Agreement prepared at Bretton Woods in 1944, we are now asked to approve a procedure leading to the first amendment to those Articles.

The plan for Special Drawing Rights is important to all our member nations. There is no area of the world that does not have a vital interest in the expansion of international trade. Moreover, the flow of public and private capital across national boundaries is of the greatest concern to the developing world, and these flows can quickly feel the adverse effects of inadequate reserves.

At the end of August, President Johnson, commenting on the London meeting, said: "Without such a scheme, the increasing inadequacy of the world's money supply will make it progressively harder for national governments to follow liberal trade and employment policies. The livelihood and even the lives of literally hundreds of millions of people over the next decade or two could be at issue especially in the less-developed countries."

Since the war, gold and dollars have provided a flow of new reserves. But gold is not now adding to global reserves, nor can it confidently be assumed that it will do so to a very large extent in the future. Total monetary gold stocks, including those held by the Fund and other international financial institutions, are not significantly larger today than they were at the end of 1964.

Dollars, sterling and temporary reserves created by the Fund under existing procedures are for the time being carrying on growth of reserves. But it is clear that future reserve growth cannot rely, as in the past, on U.S. payments deficits.

It is against this background that the negotiations on the Outline Plan have proceeded. And the Plan makes crystal clear that it is possible to reach agreement on a specific course of action despite differences in approach to the problems of the monetary system and despite widely varying national reserve positions and policies. We have progressed toward agreement in a pragmatic spirit, recognizing that no one participating in these negotiations could expect the outcome to coincide in full with his own ideas. The judgment and good will of a large number of responsible officials of governments and central banks have combined to bring about this result after some years of intensive work. The Outline Plan is now before us. We have the responsibility—and the opportunity—to adopt a resolution to begin the process of giving it life. This is our unique opportunity, meeting as a body, to act on the Outline Plan, before it is committed to our Executive Directors for final drafting, then to this Board for approval, and to Governments for acceptance.

The Outline Plan has the full support of my country. It provides the framework for an effective and workable structure for meeting future global needs for reserve assets. While there are many aspects of the Plan that are noteworthy, I shall confine myself to a few observations:

1. The Outline Plan is a universal plan. It is open to all members of the Fund, and I hope that all will wish to participate.

2. The facility is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. While each country will make its own decision, it is expected that these Special Drawing Rights will be treated as first-line reserves. The United States intends to do so.

3. The new reserve asset should provide insurance against an excessive cumulative competitive pressure for restrictions on international finance and trade transactions. It can also act as a counter to such interacting national moves

toward unduly high interest rates as are brought about by competitive actions of those countries that are protecting their reserves. At one and the same time, it will permit growth in world reserves and buttress confidence in the stability of the entire system of world finance. In a word, it should operate to relax appreciably some of the unnecessarily painful strictures on international finance that come from fears of actual or impending reserve shortage.

4. Endorsement of this Outline Plan should in itself provide smoother sailing in the world's money and exchange markets. Anticipation of the future is a powerful present factor in all things financial. Gold and exchange markets should reflect a new sense of confidence in the adequacy of future reserve supplies.

5. We are gratified that the Outline Plan recognizes that international liquidity is the business of the Fund, and clearly provides that the Board of Governors, where every member of the Fund is represented, will have the final responsibility for the vital decisions to create new Special Drawing Rights. However, as to the role of the Fund in the use of Special Drawing Rights, the Outline Plan wisely leaves scope for development through experience. The Fund's role may well become one of general guidance, more than one of detailed operation. While some basic rules for use need to be maintained, they need not be numerous or complex. The essential part of the Fund's role would seem to lie less in the area of specific transactions than in the process of taking decisions to create Special Drawing Rights and in clarifying and maintaining the basic rules governing their use.

6. A very considerable amount of reconstitution of Special Drawing Rights may be expected to occur through the normal balance of payments processes. Still it has been agreed that some explicit reconstitution provision was necessary. At the same time, it was important to avoid compromising the quality of the Special Drawing Rights as a supplement to existing reserve assets. The principles for reconstitution that have been adopted for the first 5-year period assure that the Special Drawing Rights will not be abused, yet do not interfere with their reserve asset status.

In addition to the net average use provision adopted as the initial operating rule, it is also provided that "participants will pay due regard to the desirability of pursuing, over time, a balanced relationship between their holdings of Special Drawing Rights and other Reserves." This provision is intended to encourage a balanced use of all three assets over time and thus maintain stability, in a general way, in relative holdings of the new asset and existing reserve assets, as well as to promote equivalence between the new asset and the traditional reserve assets.

My country subscribes strongly to the view that the new facility is designed to assure a satisfactory rate of growth in global reserves. It is not designed to meet an individual country's balance of payments problems.

Let me make it clear that the new facility should in no sense be regarded as a solution to the balance of payments problem of the United States or to the corresponding surplus problem of Continental Europe. This is a matter that falls under the heading of the continuing effort to improve the adjustment process. As the Hague Communiqué of the Group of Ten in July 1966 noted, "The prerequisite for the actual creation of reserves should include the attainment of a better balance of payments equilibrium between members and the likelihood of a better working of the adjustment process in the future."

Of course in determining his view as to global needs for reserves, presumably the Managing Director will take into consideration prospective future additions to reserves in the form of dollars or other foreign exchange, as well as a number of other factors and developments, both quantitative and qualitative. I doubt that an elaborate or detailed listing of criteria and relative priorities can be established, because conditions change and the relative importance of criteria change. I believe it would not be useful to incorporate a fixed list of criteria in the agreement or the report.

The U.S. Delegation has great pleasure in giving its support to the Resolution that calls on the Executive Directors to propose the necessary amendments to the Articles of Agreement. It is my strong recommendation that the work of the Executive Directors to this end be completed with dispatch. We hope to propose legislation to the Congress of the United States in the early spring of 1968.

The Resolution before us also requests that a report be made on such other possible amendments as may be recommended at the same time. We are clearly at a much earlier stage of our consideration of other proposals for changes in the Articles and By-Laws. Nevertheless, my Delegation concurs in proceeding to an examination of such proposals.

The proposals will have to be judged on their own merits, and accepted, altered or rejected on this basis in the report to be submitted by the Executive Directors. Some suggestions may prove relatively easy either to accept or reject. If, however, some suggestions are found to be complicated and/or controversial, the Executive Directors could not be expected to put forward next year specific proposals for change based on such suggestions. Adequate time should be allowed to permit a mature, broad, and certain meeting of minds. This is the way we have approached the question of Special Drawing Rights.

For the above reasons, I believe that specific substantive decisions on all these matters should not be regarded as a precondition to taking action on the Special Drawing Rights amendment.

### III

I turn now to matters relating to long-term economic development. The improvements we are now setting in motion in the international monetary mechanism are, I believe, essential to the long-term well-being of the developing countries. Economic interdependence of the developed and the developing countries is a fact of the present and of the future that must be a guiding principle in the direction we give to international economic policies.

It is a paradox that the problem of development, while infinitely complex in its economic, social, cultural and even moral ramifications, is also blindingly simple in its barest elements. These can be reduced to three in number:

(A) Domestic self-help policies by the developing country sufficient to;

(B) attract external resources, public and private, drawn from countries able to provide them resulting in a ;

(C) diligent application of the combined domestic and external resources along lines conducive to long-term development rather than exhausting immediate consumption.

The major factor in the history of successful development lending by the World Bank may well be its devotion to these principles. The Bank outstandingly reflects them today.

The subject of International Development Association replenishment, while not formally on our agenda, is nevertheless the most important business pending before the Governors of the Bank family of institutions. It should be evident from my remarks today that President Johnson fully supports the efforts of the World Bank management to achieve a replenishment for IDA on a substantially enlarged scale. I am hopeful that in their statements here, other Governors will share this attitude.

We are mindful, of course, that external assistance such as IDA provides can only supplement sound national development efforts. Only in association with self-help efforts—coordinated and soundly applied domestic policies and actions—can the application of external assistance bring developing countries to sustained growth.

Further, domestic self-help policies which need not be catalogued here are of vital importance to create a climate in the developing countries conducive to maximizing the flow of external resources—public and private. Where these measures are lacking, the task of commanding the support of the electorates of high-income countries for continued assistance with public funds will be made far more difficult. Where these are lacking, private resources will not flow in desired directions and amounts.

Two developments of the past year are especially noteworthy for us here in relation to the object of encouraging greater foreign and local private capital participation in the growth process.

The initial use of the authority granted under earlier Charter amendments was made by the Executive Directors approving a \$100 million line of credit from the World Bank to the International Finance Corporation. As a result, we may expect even more substantial increases in IFC financing of the private sector—and in the much larger volumes of foreign and local private capital that are associated with it.

Second, the inauguration of a new and useful facility within the IBRD institutional structure—the International Centre for the Settlement of Investment Disputes—through arbitration and conciliation services will contribute materially to an improvement of the climate in which international private investment takes place. In so doing, it will extend the area that can benefit from private investment. It merits the support of the entire membership of the Bank.



I cannot overemphasize the importance of policies conducive to a strong and dynamic private sector, offering opportunities to both foreign and local capital, and serving as the pace setter of the economy.

In stressing the role of private finance, I am, of course, ever mindful of the need for effectively mobilized and effectively applied public finance. We heard in the opening addresses yesterday and will in the next days learn more of the urgent need for the developed countries to find the ways and means of promoting increases in the volume of real resources available for development. We have too long remained on the so-called aid plateau. It is time to strike out for higher ground. The World Bank family, and with it the regional banks, offer a promising channel for doing just this.

I would be taking an unrealistic view of the world if I were not to recognize, however, that, leaving aside the budgetary problem we all face, there are at least two other constraints that tend to hold back the steadily increasing availability of resources to these multilateral lending institutions.

(A) Capital markets everywhere are under pressure from mushrooming domestic requirements. The price of capital in many markets is touching historic highs. The World Bank should not be forced to place excessive reliance on any single market for its rising capital needs. A sustainable mechanism for providing development finance to the Bank through private markets requires an equitable sharing of the total efforts—and the concept of equity embraces reasonable terms as well as adequate amounts. Certainly, surplus countries should contribute positively to the adjustment process through granting preferred and substantially increased access to their capital markets by the Bank and other multilateral lending agencies.

(B) Balance of payments factors are the other special constraint. Rather than permit our serious and continuing balance of payments difficulties—made still more complex by the foreign exchange cost of our effort in Vietnam—we in the United States have found ways to maintain a high level of aid through the transfer of real resources to the developing world.

We would prefer, in an ideal world, to make our assistance available in the form of financial resources. However, when balance of payments realities confront us, our choice is clear: we strive not to reduce the level of our assistance—but instead to make our assistance available through transfer of real resources. This approach requires that the real resources represent an addition to, not a substitute for, goods and services moving in normal commercial channels.

If serious and continuing balance of payments difficulties constitute a constraint on the ways the United States can provide assistance, persistent balance of payments surpluses constitute an imperative to countries enjoying such a position to expand their assistance in the form of finance. A sensible policy for such countries, and a policy which can make a contribution to the overall adjustment process in the international payments system, is one of increasing the volume, easing the term, widening the geographic scope and eliminating procurement limitations on the flow of development funds.

These thoughts are relevant to the unresolved question of IDA replenishment.

As of last March, I was authorized by President Johnson to support the IDA replenishment at a substantially increased level, provided that account should be taken of the balance of payments problems of deficit donor countries in deciding how IDA's new resources would be made available. Such a feature will in fact speed agreement leading to transfer of resources to less-developed countries through IDA.

If the multilateral agencies themselves are to achieve our hopes for them, they must have increasing funds committed by the donors for a long-term period. Balance of payments safeguards will help assure that long-term contributions are made, since only with their protection will Finance Ministers be in a position to assure their legislatures that the uncertainties of the future have been taken into account.

In thus referring briefly to IDA replenishment discussions I would like to make one further point very clear. Nothing in the U.S. plan would require IDA to make any changes in its present policies with respect to the allocation of its resources to countries and projects, or with respect to international competition in procurement, and no such changes are contemplated in this proposal.

The magnitude of the tasks ahead requires that we strive to improve the quality of the development efforts of both the advanced and the developing countries. In so doing, we must recognize that certain economic sectors demand

greater concentration of these improved efforts. The twin problems of food and population should now occupy the forefront of our attention. The United States is emphasizing assistance in agricultural improvement—including land reform as well as direct production improvements—in its own programs. The international institutions are giving increased attention on their part. Nothing less than the highest priority attention to these problems will provide the basis for averting the potential disaster that looms in the food-population race.

In closing my remarks I would like to quote to you the words of the Brazilian Representative, Mr. Souza Costa, who in offering a resolution of thanks at the final session of the Bretton Woods Conference, said:

"As the knowledge of these results becomes more widespread, a corresponding increase will take place in the number of those who, realizing the greatness of the objectives sought, will wish to be counted among the supporters of this undertaking."

How correct this prophesy has been with respect to the Fund and the Bank. Let us hope that our successors will say the same of the work that we have launched at this Annual Meeting.

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**Exhibit 33.—Statement by Secretary Fowler, November 19, 1967, following announcement of a new parity rate for the pound**

Events of the 24 hours following announcement of the new parity rate of \$2.40 for the pound have demonstrated the strength of the international monetary arrangements and the spirit of monetary cooperation created in the free world since World War II. This cooperation began with Bretton Woods, was strengthened and implemented through various successful arrangements over the past 20 years, showed up fully in the agreement reached at Rio de Janeiro in September in plans for new international liquidity, and has been expressed since the U.K. devaluation as:

—The International Monetary Fund has indicated that it is giving prompt attention to the U.K. request for a \$1.4 billion standby "with the expectation of reaching a favorable decision in a few days."

—President Johnson has reiterated the firm commitment of the United States to buy and sell gold at the existing price of \$35 an ounce.

—An overwhelming majority of the major financial and trading nations of the free world have announced decisions to maintain their currencies at present rates. It is clear now that adjustments will be confined to a few countries where fundamental disequilibrium also exists.

—Chancellor Callaghan has indicated that very substantial additional financial support has already been pledged by a number of important central banks. Together with the \$1.4 billion International Monetary Fund standby, this will bring total new support to approximately \$3 billion.

To emphasize her determination to reach equilibrium, the U.K. Government has announced a series of new domestic measures designed to resolve her balance of payments problem.

The United States is confident that with this broad understanding and the actions cited above the United Kingdom will achieve its objectives. As the President said yesterday:

"I believe the United Kingdom will—at the new parity—achieve the needed improvement in its ability to compete in world markets. The attainment of equilibrium by the United Kingdom will be a healthy and constructive development in international financial markets."

Thus the nations of the free world have demonstrated again that they have the will and the means to work together, in the framework of the International Monetary Fund and other international cooperative arrangements, to assure the continued healthy functioning of the international monetary system.

The United States, with all of its productive strength, stands firmly committed to joining with others in the international task of maintaining a sound world monetary system.

**Exhibit 34.—Frankfurt Communiqué of November 26, 1967, by the Governors of the Central Banks of Belgium, Germany, Italy, Netherlands, Switzerland, the United Kingdom, and the United States**

The Secretary of the Treasury and the Chairman of the Federal Reserve Board made available a communiqué issued in Frankfurt, Germany, today which reads as follows:

"The Governors of the Central Banks of Belgium, Germany, Italy, Netherlands, Switzerland, the United Kingdom, and the United States convened in Frankfurt on November 26, 1967.

"They noted that the President of the United States has stated:

" 'I reaffirm unequivocally the commitment of the United States to buy and sell gold at the existing price of \$35 per ounce.'

"They took decisions on specific measures to ensure by coordinated action orderly conditions in the exchange markets and to support the present pattern of exchange rates based on the fixed price of \$35 per ounce of gold.

"They concluded that the volume of gold and foreign exchange reserves at their disposal guarantees the success of these actions; at the same time they indicated that they would welcome the participation of other central banks."

**Exhibit 35.—Statement by Secretary Fowler and Chairman Martin of the Federal Reserve Board, December 16, 1967, on maintenance of the gold value of the dollar**

The Secretary of the Treasury and the Chairman of the Federal Reserve Board today issued the following statement:

The United States stands firm in its determination to maintain the gold value of the dollar.

The central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, and the United Kingdom support this position and continue to participate fully with the United States in policies and practices in support of the price of gold at \$35 an ounce.

The operation of the London gold market will continue unchanged.

The U.S. authorities and the European central banks concerned endorse this position unanimously and are cooperating in the interest of maintaining the stability of the international monetary system.

**Exhibit 36.—Remarks by Secretary Fowler, January 10, 1968, before 1968 "Share in Freedom" Savings Bonds Volunteer Conference**

Chairman Gwinn, Distinguished Guests, Ladies and Gentlemen—I am delighted to be here with you and to witness the inspiring example that this superb audience is giving the American people.

As volunteers in the cause of good citizenship, you are putting patriotism into practice. You are demonstrating—not your rights—but your responsibilities.

Your numbers are impressive and the importance of your callings more so. You exemplify the simple truth on the cover of your colorful campaign brochure as stated by a great President—"I go for all sharing the privileges of the Government who assist in bearing its burdens."

In an altogether fitting observance of New Year's Day, President Johnson launched an Action Program to maintain the strength of the dollar and preserve the soundness of the Free World monetary system by restoring our international payments to balance.

This was an act of singular courage and decisiveness, but also an act of challenge—to you and to me—whatever our respective callings—public or private.

The challenge was to all responsible citizens to join in the "very necessary and laudable effort to preserve our country's financial strength."

Today we launch a related and equally laudable effort for the same noble purpose—for the sale of U.S. savings bonds, like the restoration of our balance of payments to equilibrium, will preserve a strong dollar—at home or abroad.

And that strong dollar is the bulwark of both our domestic and international monetary system.

It has helped bring the greatest economic miracles of all times.



It has underwritten unprecedented prosperity for the people of the United States who are now in the 83d month of sustained economic growth shared with our near neighbors.

It has helped bring back a war-torn Europe and Japan to share in that prosperity.

It is helping to bring new life and strength and hope to the developing world of Asia, Africa and Latin America.

It is turning back the naked aggression in Southeast Asia, which, if left unchecked, would light the fires and fears of war in other parts of the world.

The strength of the world economy and the functioning of the international monetary system depend to a large extent on the level of economic activity in the United States and the maintenance of a stable dollar—stable in terms of prices and of exchange rates.

Yes, as the President said on New Year's Day—a strong dollar protects and preserves the prosperity of businessman and banker, worker and farmer—here and overseas—as it is restoring peace and security.

And it is our job to protect and preserve the strength of the dollar for these tasks in the years ahead.

The New Year is a time for action—for decisive action pursuant to firm resolution.

Today—this month—we are concerned with three related areas for decisive action and firm resolution to strengthen the dollar by:

—taking action to deal directly with our balance of payments deficit through the selective temporary and longer term measures set forth by the President on January 1;

—making it “the first order of business”—as termed by the President—to restore the first line of defense of the dollar—a strong American economy—by moving decisively in the direction of balance in our budget and stability in prices and unit labor costs with the enactment of the anti-inflation tax increase, coupled with an austere budget, appropriate monetary policy, and a more effective voluntary program of wage-price restraint, and

—launching here today the most intensive, effective effort since World War II to meet to the maximum extent the Government's borrowing needs outside the overcrowded money markets through the sale of U.S. savings bonds and Freedom Shares, thereby financing the debt in an anti-inflationary manner.

First, I would like to discuss briefly three questions that seem to arise frequently about the President's new balance of payments program.

Why were these measures—some of them drastic and unprecedented—taken at this particular time when we have had this problem around for a long time and it concerns a deficit that is only a fraction of one percent of our national output of goods and services?

It is apparent that even today, many of our people are not fully aware of the urgent necessity of restoring a balance in our international payments. The U.S. economy is strong and prosperous. The international transactions of the United States, while very large in terms of the world economy, are small relative to our total production, consumption and investment. Why should the United States or the world be disturbed about a balance of payments deficit that at worst has been only a fraction of one percent of our output of goods and services?

Despite the magnitude of our domestic economy, the foreign transactions of the United States are very important to our economic well-being and indispensable to the free world. Imports of foodstuffs, raw materials, and finished goods are essential for our production and our high standard of living. The overseas expenditures of the U.S. Government for foreign aid and defense are vital to our objectives of world peace and security. U.S. private foreign investment or lending is profitable to our banking and business institutions, important for economic growth and development in many other countries, and an inherent part of the functions of the dollar as the preeminent international currency.

The cost of these imports, security expenditures abroad, foreign investment, and—yes—our travels to other lands for pleasure or profit, must be paid for by exports of goods and services, the earnings of our foreign investments, foreign investment and tourism in the United States, and other foreign exchange receipts. When our total foreign payments are more than our foreign receipts, some of the excess dollars received by foreigners are sold to their monetary authorities in return for local currency.

To some extent and for some time, foreign central banks are willing to add such dollars to their reserves. But when the accumulation of dollars is large in amount and continues for a long time, some foreign central banks no longer add these dollars to their reserves but convert them into gold.

Our total foreign payments have exceeded our total foreign receipts steadily since 1958. As our gold reserves were very large then—they were larger at the end of 1957 than they had been at the end of 1950—there was no urgency about restoring our balance of payments. In fact, nearly all countries had very small reserves and many were eager to add to their dollar reserves.

Nevertheless, President Eisenhower instructed the Department of Defense and other Government agencies to economize on their foreign expenditures. President Kennedy strengthened the earlier program and introduced new measures, including those designed to increase U.S. exports, to hold down U.S. purchases of foreign securities and to increase foreign purchases of U.S. securities. A renewed capital outflow in 1964 made it necessary for President Johnson to introduce a voluntary program for holding down foreign direct investment and foreign bank loans.

It had been hoped that the normal adjustment of international payments would enable us to restore our payments without restrictive measures. In fact, from 1959 to 1964, we made good progress in reducing our payments deficit because of the growth of our exports of goods and services, and because of the rise in earnings from our foreign investments, and because of the savings on the government account. The sharp increase in our private capital outflow, however, prevented the achievement of balance in 1964.

In 1965 and 1966, the accelerated expansion in the U.S. economy and the war in Vietnam placed renewed pressure on the balance of payments. The great boom resulted in an extraordinary increase of imports, very much more than the increase of exports. The costs of our forces in Vietnam added substantially to our foreign payments. Thus, while the voluntary program reduced the capital outflow considerably from the peak of 1964, the payments deficit persisted. No progress was made in 1967 because our imports continued to rise nearly as much as our exports, the foreign exchange costs of Vietnam rose further to over \$1.5 billion, and private capital outflows and the tourism deficit again increased.

The devaluation of sterling brought the balance of payments problem to an acute stage. It resulted in a loss of confidence in currencies and was accompanied by a large outflow of foreign funds from the United States and a burst of speculative buying of gold. This was a threat not only to the dollar but to the international monetary system as a whole. While the speculation was repulsed with the cooperation of the members of the gold pool, it has underlined the urgency of placing the dollar once more in an impregnable position. With the implementation of the Rio resolution for creating Special Drawing Rights by the International Monetary Fund, the world will be assured of an adequate supply of reserves without the necessity of depending on continued U.S. deficits. The time has come, therefore, when it is necessary and desirable to take decisive measures to eliminate the payments deficit. That will be done through the Action Program.

The second question often raised in connection with the President's new balance of payments program is why were measures selected that were restrictive of spending abroad in the private sector—business and direct investment, banking and tourism—instead of reducing Government expenditures overseas?

The answer is twofold. For some years the Government has conducted a rigorous program to reduce and neutralize the balance of payments costs of its overseas expenditures resulting in the saving of billions of dollars of foreign exchange. Government spending abroad consists primarily of military expenditures resulting from the positioning of our military forces beyond our borders in the interest of maintaining our security and that of our allies in Europe and the Far East, and foreign aid provided to certain of the less developed countries directly or in association with other financially powerful nations in international organizations such as the World Bank, the Inter-American Development Bank and the Asian Development Bank.

In the field of military expenditures a very stringent program, developed and rigorously executed by the Defense Department under the leadership of Secretary McNamara, has saved billions of dollars in foreign exchange costs of our military expenditures abroad. I invite any who raise the question as to what the Govern-

ment is doing to hold down the balance of payments consequences of its own expenditures abroad to secure a copy and read carefully a 26-page report released last week by the Department of Defense. That report reviewed the most intensive program being executed by that Department in a variety of measures to reduce the balance of payments impact of maintaining our security abroad.

For a few examples—actual numbers of military personnel deployed abroad have been reduced to the degree consistent with our security commitments to our allies.

Military strength levels in Western Europe have been reduced by 67,000 since the peak of the Berlin buildup in March 1962, and there will be an additional reduction of 35,000 in 1968 resulting from arrangements made last year on a new force rotation principle.

There has been a continuing effort to encourage participation by military personnel stationed in foreign countries in voluntary programs designed to channel available disposable income back to the United States—premiums on savings returned home, the use of military payments certificates in Vietnam and, more recently, the establishment of a rest and recuperation program in Hawaii for military personnel serving in South Vietnam are examples.

Actions taken to reduce the number of foreign nationals employed in connection with military operations abroad has resulted in substantial reduction of this category of foreign exchange cost in all areas except Southeast Asia.

Expenditure for material, supplies and services and major equipment from U.S. sources rather than off shore has received very great emphasis. The Defense Department is also attempting to achieve maximum feasible use of U.S.-owned excess currencies and barter arrangements as a means of conserving defense dollar expenditures entering into the balance of payments.

A program to conduct sales of U.S.-type military equipment to our allies to further the practice of cooperative logistics and standardization of equipment and reduce costs to our allies and to ourselves has had the result of offsetting, at least partially, the unfavorable payments impact of our deployments abroad in the interest of collective defense. Receipts from these sales have increased from an annual rate of \$300 million a year in fiscal 1961 to close to \$1.6 billion in fiscal 1967.

The reduction of the foreign exchange impact of foreign aid by tying it to the purchase of U.S. goods and services—a program inaugurated in the latter part of the Eisenhower Administration—has been rigorously pursued. Whereas in 1959 only 40 percent of our bilateral aid dollars were being spent on U.S. goods and services, tying procedures have been continually strengthened so that the percentage has been increased to nearly ninety percent. Recognizing that tying procurement to U.S. sources may not itself be enough to reduce to the extent necessary the impact of the aid program on the balance of payments if the purchases made with the funds merely substitute aid exports for commercial exports, special efforts are being made to insure that aid financed exports will be “additional.”

But the President's new balance of payments program did not stop with pointing to past and current efforts to reduce the impact of Government expenditures abroad on our balance of payments. In speaking of these efforts he said: “I am convinced that much more can be done. I believe we should set as our target avoiding a drain of another \$500 million on our balance of payments.”

To achieve this objective, he took three steps—directing the Secretaries of State, Treasury, and Defense to initiate prompt negotiations with our allies to minimize further the foreign exchange costs of stationing our troops within their borders, instructing the Director of the Budget to find ways of reducing the number of Government civilian employees working overseas, and instructing the Secretary of Defense to find ways to reduce further the foreign exchange impact of personal spending by U.S. forces and their dependents in Europe.

Of course, there are those who would argue that Government expenditures overseas should be further reduced by bringing our forces back to the United States into a kind of “fortress America.” To this contention the answer is clear. In the words of the President: “We cannot forego our essential commitments abroad, on which America's security and survival depend.”

When a family has a cash stringency because there is more outgo than there is income and it has to cut down on spending and/or try to increase its earnings, I believe the head of that family would make a very poor choice of means if



he decided to cancel the insurance policies on which family security was based.

The third question asked about the President's new balance of payments program is—won't the reduction of outflow of dollars from the United States or flow-back of dollars to the United States cause a sharp deflation in the remainder of the world?

Again, the answer is in two parts. First, the monetary and fiscal authorities in other countries can take domestic measures to provide additional money and credit in their own currencies for the dollars that no longer come or the dollars that go home by adopting more expansionary monetary and fiscal policies.

Second, the early availability of additional monetary reserves to the world's total in the form of Special Drawing Rights in the International Monetary Fund through a new facility now being provided by the collective action of the 106 member countries in that organization should remove the concern that the elimination of the U.S. deficit will endanger a healthy growth in the monetary reserves of the rest of the world. In past years there have been fears that more intensive action to eliminate the deficits in our balance of payments which have characterized past years and added to the reserves of other nations at a time when little, if any, newly mined gold was being added to world monetary reserves would cause a worldwide recession as a scramble by countries for reserves resulted in "beggar thy neighbor" policies, sharp deflation or escalating international interest rates. Now the risks of cutting our deficit too much are negligible.

Last September at the Annual Meeting of the International Monetary Fund in Brazil the Governors representing the 106 member countries unanimously approved a resolution directing the submission to Governments by March 31, 1968, of the first major amendment to the Articles of Agreement of the IMF since the original Agreement at Bretton Woods in 1944. This amendment, the product of 2 years of intensive negotiations inaugurated in July 1965 at the initiative of our President, would provide a facility for the deliberate creation of additional monetary reserves supplementary to gold and the reserve currencies such as dollars in the form of "Special Drawing Rights." These Rights would be distributed to the central banks of the 106 member countries in accordance with their percentage quotas in the Fund. They could be used for an unconditional call on the currencies of other countries in accordance with procedures set forth in an extensive "Outline of a Plan" which was approved as a basis for the amendment.

When operational—this new facility will supply additional liquidity to the world in amounts needed to accommodate an increasing volume of trade and capital movements. The international monetary system would no longer depend for additional reserves on newly mined gold excess to increasing industrial and decorative use and sporadic speculative demand and additions to the holdings of dollars in official reserves of other countries resulting from variable deficits in U.S. balance of payments.

In the words of the President, as our movement toward balance curbs the flow of dollars into international reserves, "it will therefore be vital to speed up plans for the creation of new reserves—the Special Drawing Rights—in the International Monetary Fund. These new reserves will be a welcome companion to gold and dollars, and will strengthen the gold exchange standard."

I have discussed the three questions most often raised about the President's new balance of payments program. Sometimes those who have not studied the President's statement carefully ask a fourth question—why does the program try to restrict certain outflows instead of tackling the more fundamental problem of handling our internal economy so as to avoid the inflation that is the root cause of the problem?

The answer is that the President's balance of payments program incorporates in very specific terms measures for tackling this fundamental problem. Indeed, he labels them in his Message as "the first order of business" and uses the word "urgent" in describing them saying: "No business before the returning Congress will be more urgent than this: to enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus."

In addition, the President directed his Cabinet officers to work with leaders of business and labor "to make more effective our voluntary program of wage-price restraint 'and' prevent our exports from being reduced or our imports increased by crippling work stoppages in the year ahead."

This brings us in a natural transition to a concern for the strength and stability of the U.S. economy which is the first line of defense of the dollar.

To sustain the kind of economy that has given us nearly seven years of continuous growth, we have urgent business before us.

We need a tax increase, and we need it now.

President Johnson last August requested a temporary, 10-percent surcharge. He did this in the face of a dangerous deficit, rising interest rates and the threat of unacceptable inflationary pressures.

Since that time a consensus in favor of a tax increase has emerged among responsible leaders throughout the country, including many of you here today. It takes a sense of true responsibility for an industrialist, who is responsible to his stockholders, to recommend greater taxes.

The labor leader, elected by the members of his union to represent their best interest, must show a similar sense of wise fortitude.

The professional economist, who is paid to be right more often than he is wrong, evaluates the economic climate most carefully before he goes down the line for a tax increase.

And the responsible journalist and business writer, whose views often mold the public thinking on important questions affecting the economic course of our daily lives, must be doubly cautious about what he commits to paper.

In a way, all of these have as much to lose from making wrong judgment on this question as a member of Congress.

But—to get the action that counts we need to add to the singular near unanimity among many of the Nation's foremost businessmen and labor leaders, economists, industrialists, bankers and financial leaders who have recommended a tax increase—the votes of the majority of the members of the House of Representatives and the Senate.

A failure to take this tax action promptly will risk a declining trade surplus. This trade surplus is the mainstay of our balance of payments position. It can rapidly decline—as it did in late 1965 and 1966—when a floodtide of imports was induced by an economy running at a very high rate of speed. When our rate of economic growth in money terms expands at a rate of 8 or 9 percent, there is an increasing propensity to import. In that situation, imports occupy an increasing percentage of our gross national product and our trade surplus evaporates. We cannot afford to let that happen, canceling our savings effected by the direct measures in the President's program.

A failure to take this tax action promptly and decisively will cause strain, tension and a scramble in our domestic credit markets, endangering the housing industry and the satisfaction of credit needs of States and local government and small business on reasonable terms.

A failure to take this tax action promptly will give rise to doubt at home and abroad on the health of the dollar—and the will and capacity of the American Government and people to protect it from the internal danger of an inflation which is accompanied by a wage-price spiral.

*Let me be clear: The Number One domestic and international legislative objective of this Administration remains passage of this badly needed tax surcharge.*

I ask you to give your help in support of this measure.

This brings us to the last of the three programs being launched this January to strengthen the dollar—your principal business of the day and, I hope, an important part of your business for the year—promoting the sale of U.S. savings bonds.

Buying and holding U.S. savings bonds are actions more important to our nation's economic stability today than ever before. These bonds not only support our fighting men in Vietnam and our commitment to the defense of freedom throughout the world, but they strengthen the dollar by strengthening our economy at home and guarding against the forces of inflation.

In the days and months to come, all of us—in Government, in banking and finance, in industry and commerce—must share an extra burden of responsibility in maintaining a steady economic footing while we continue to move ahead.

Now, more than ever before, it is essential that we finance our debt in the soundest possible way; that we do all we can to place more of the debt in the hands of savers. You well know that participation in the Savings Bonds Program is a measurable and effective means of accomplishing both these objectives, because you have done an outstanding and admirable sales job.

I am convinced our program can be expanded. We have good "products." Savings bonds are an attractive investment. To be sure, higher rates are available

in today's markets than the 4.15 percent rate of interest on our savings bonds. But our bonds do have advantages, namely, safety, convenience, liquidity, and certain tax benefits in terms of deferred income as well as exemption from State and local income taxation. Similarly, our newer "Freedom Shares" with a 4.74 percent rate of interest are very attractive and worthwhile investments too.

In closing let me express a debt of gratitude from Treasury to you who are doing so much in the promotion of the sale of savings bonds. The growing stockpile of savings bonds assists the Treasury materially in managing the nation's finances—maintaining a stable economy at home, and a strong economic position internationally, to back our stand for freedom in Vietnam and elsewhere in the world.

The fact that so many Americans participate in the regular purchase of savings bonds is irrefutable and inspiring evidence of the effective energies and talents that you leaders of business, labor and finance have put into our programs to promote the buying and holding of these bonds. This has been a primary factor throughout the nearly 27 years that the Savings Bonds Program has been in effect.

In promoting savings bonds, you have contributed—as you will be contributing again this year—not only to the nation's economic defense, and hence its military strength, but, in addition, to its spiritual well-being.

Many of you have come long distances to meet with us—and to share your thinking and planning with ours—in launching our new campaign for 1968, in which we seek to sign up 2 million Americans as new savers or for increased payroll savings. Your attendance speaks volumes and your expressions of determination to exceed the goal of the 1967 committee are most gratifying.

In a certain sense, you are our customers and some of you are perhaps being sold for the first time on the built-in advantages of the payroll savings plan that may be enjoyed by your employees and the good will that can accrue to your management as sponsor.

If you do not already know these advantages, they are spelled out for you convincingly on the pages of Chairman Gwinn's campaign brochure. But—more than customers and believers and volunteers—you are builders of national unity, domestic security and international stability.

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**Exhibit 37.—Statement by Secretary Fowler, February 5, 1968, before the House Committee on Ways and Means, on certain legislative aspects of the President's balance of payments program**

In 1967, the deficit in our international balance of payments increased substantially to reach an intolerable level. On January 1, the President, in a message to the Nation, announced an action program<sup>1</sup> to bring our balance of payments to—or close to—equilibrium, stating the need for action is a national and international responsibility of the highest priority. I would ask that his Message be made a part of the record.

Shortly thereafter, I released a Treasury Department Report<sup>2</sup> entitled "Maintaining the Strength of the United States Dollar in a Strong Free World Economy." This document describes in detail the background and reasons for the Action Program announced by the President. It describes what we have done to date, and what we propose to do, both over the short and the long term. I have asked that copies of this report be made available this morning to each member of the Committee, because there may be occasions to make reference to it.

We welcome this early opportunity to appear before you to review in general terms the balance of payments program as a background for some important legislative program decisions within the purview of this Committee that call for early action. The areas of particular legislative concern to this Committee relate to improving our trade surplus as the mainstay of our balance of payments situation, both short-term and long-term, and action to deal with our so-called travel deficit, which is one of the sources of increasing weakness in our balance of payments situation. I shall discuss both the trade surplus and the travel deficit and measures to deal with them. Ambassador Roth, the President's Special Representative on Trade Negotiations, is here to present a statement for the information

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<sup>1</sup> See exhibit 12.

<sup>2</sup> See exhibit 58.



of the committee concerning a particular aspect of the trade problem which is dealt with specifically in the President's January Message under the heading, "Nontariff Barriers."

## I. THE BALANCE OF PAYMENTS PROBLEM—WHAT IT IS AND HOW TO RESOLVE IT

Before I go into detail concerning the areas with which this Committee is directly concerned, it will be useful to discuss the broad question of the U.S. balance of payments problem and our strategy—both the short- and long-term—to deal with it. In essence, I raise here, and attempt to answer, five questions:

- Why is there a problem with our balance of payments?
- Why do we have to take such drastic action now?
- What are our long-term prospects?
- What will be the world impact of the present program?
- How will the rest of the world respond to it?

### The balance of payments problem

Even today, many of our citizens are not fully aware of the urgent necessity of restoring a balance in our international payments. The U.S. economy is strong and prosperous. Foreign transactions of the United States, while very large in terms of the international economy, are small relative to our total production, consumption, and investment—relatively smaller than for almost any other country. Why should the United States, or the world, be disturbed about a balance of payments deficit that is only a fraction of one percent of our output of goods and services?

Despite the magnitude of our domestic economy, the foreign transactions of the United States are important to our economic well-being and indispensable to the free world. Imports of foodstuffs, raw material, and finished goods are essential for our production and our high standard of living. The overseas expenditures of the U.S. Government for foreign aid and defense are vital to our objectives of world peace and security. U.S. private foreign investment is profitable to our banking and business institutions and important for economic growth and development in many other countries. And travel enhances international understanding.

The cost of imports, travel abroad, security and aid expenditures overseas, and foreign investment must be paid for by exports of goods and services, the earnings of our foreign loans and investments, travel and investment by foreigners in the United States and other foreign exchange receipts.

In 1966 our total international payments amounted to \$49 billion, while our foreign receipts were nearly \$48 billion. The resulting deficit in our balance of payments amounted to \$1.4 billion. This increased to more than \$3.5 billion last year.

When our total foreign payments are more than our foreign receipts, some, or all, of the excess dollars received by foreigners are sold to their central banks, which can use them in a variety of ways—including holding them as reserves or buying gold from the United States. The result tends to be a deterioration in the liquidity position of the United States, as the ratio of its reserve assets (e.g., gold) declines relative to its liquid liabilities (e.g., dollars held by foreigners).

The United States is the major international banking center holding large deposits both for monetary authorities and for private banks, corporations and individuals. The dollar functions as the principal international currency. Its liquidity position must remain strong, like that of any bank, to retain the confidence of its depositors.

The U.S. deficit was welcome when it first developed in the early postwar years. Then, as now, the deficit consisted of capital outflows—both public and private—that exceeded the U.S. surplus on goods and services. It supplied reserves to foreign countries—principally European—which had drawn them down to finance the war and postwar reconstruction. More basically, the U.S. capital flow to Europe contributed to the European economic miracle and the smooth transition to European economic unity.

In the late 1950's, however, U.S. deficits began to become a source for concern. Not only did the size of the deficits rise, but they were financed more by sales of gold and less by foreign accumulation of dollars than in prior years. Some foreign central banks had what they considered to be adequate supplies of

dollars in their reserves. Many countries, however, still had small reserves and were still eager to add to their dollar reserves. Thus, there was still no high urgency about restoring balance to our international accounts. Nevertheless, President Eisenhower instructed the Department of Defense and other Government agencies to economize on their foreign exchange expenditures. With 3 years of large deficits culminating in a speculative outbreak in the London gold market in October 1960, new measures were called for. President Kennedy proposed measures to increase exports and other receipts, intensified efforts to cut Government balance of payments costs and later introduced the Interest Equalization Tax to hold down U.S. purchases of foreign securities. A sharp rise in U.S. capital outflows in 1964 made it necessary for President Johnson to introduce a voluntary program for holding down direct investment and bank loans abroad.

The rationale behind these measures was as follows:

—First, while the rising outflow of U.S. capital was moderated, U.S. international balance would be restored by the growth of the U.S. surplus on non-capital transactions.

—Second, modestly restraining the increase in U.S. foreign investments, particularly those in Western Europe, would have only a small effect on world economic growth—in sharp contrast to other alternatives—and would yield satisfactory balance of payments results over time.

From the 1958-60 period to 1965, we made good progress in reducing our payments deficit because of the growth of our exports of goods and services relative to our imports, because of the rise in earnings from our foreign investments, and because of the reduction in capital outflow in 1965.

In 1965 and 1966, we reduced our liquidity deficit by almost two-thirds from the average deficits of 1958-60 and one-half from the average of 1961-64. As this period progressed, however, the accelerated expansion of the U.S. economy and the war in Vietnam placed renewed pressure on the balance of payments. The boom resulted in an extraordinary increase in imports. The costs of our forces in Vietnam added substantially to our foreign payments.

Despite this the dollar was strong. After France ceased in October 1966 its regular monthly purchases of gold initiated early in 1965 to absorb the dollar surpluses it had accumulated, the drain on the U.S. gold supply dried up to a trickle.

There was retrogression in the first three-quarters of 1967 because the foreign exchange costs of Vietnam rose further, private capital outflow increased, net tourist expenditures rose, and the European economic slowdown reduced European imports—and our exports.

The devaluation of sterling in November 1967, brought the international monetary situation and our balance of payments problem to an acute stage. The British move resulted in a weakening of confidence in currencies and was accompanied by a burst of speculative buying of gold and a resulting large loss of U.S. gold reserves in November and December. This was a threat not only to the dollar but also to the international monetary system as a whole.

While the speculation was repulsed with the cooperation of most of the members of the gold pool, it underlined the urgency of placing the dollar once more in an impregnable position. The time had come when it was necessary and desirable to take new and decisive measures to move the United States payments position strongly toward balance.

What was the best way to achieve this? Depressing the American economy is as unacceptable a solution to our imbalance of payments to most other nations of the world as it is to the United States. The United States occupies a unique role in the world economy. It is by far the largest exporting and importing country. It is the principal source of international capital. It is the largest donor of aid. Military forces stationed abroad are indispensable to the security of many countries—including the United States. For all these reasons, the entire world is affected by the U.S. economy and the U.S. balance of payments. The volume of international trade, the prices of basic commodities, the cost of money, and even the level of production and employment abroad respond to the U.S. economy. The United States must seek a solution to the payments imbalance through the expansion of the world economy, rather than the severe contraction of its own, and, consequently, the world economy.

The action program announced by President Johnson on January 1 avoids deflation, while underlining the urgent need for prompt enactment of an anti-

inflationary tax increase, along with proper control of public expenditures, appropriate monetary policy, responsible wage and price decisions on the part of business and labor, and other measures to increase our export surplus and avoid any deterioration through excessive growth accompanied by inflationary trends that will weaken the United States competitive position in world markets.

Because the need to cut the U.S. payments deficit is urgent, the program also includes new and stringent temporary restraints on outflows of U.S. private capital. We are here today to recommend a program to curtail, temporarily but sharply, the amount of foreign travel expenditures by Americans. Indeed, it is upon these uncongenial measures that we must rely for the largest immediate effects. These measures are taken reluctantly as an emergency matter. How soon they can be relaxed will depend greatly upon our own efforts to increase our trade surplus, reduce or neutralize Government expenditures abroad, and encourage foreign travel and investment in the United States.

### International monetary system

It is the relationship of the U.S. dollar and the U.S. payments position to the international monetary system that makes this program both a national and international responsibility.

The international monetary system requires adequate monetary reserves to enable countries to meet payments deficits while they take measures to adjust their balance of payments. The monetary reserves of the world consist mainly of gold, U.S. dollars, and other currencies. As world trade and payments grow, the need for additional monetary reserves also grows. Since 1950, less than half of the increase in monetary reserves has been in the form of gold. More than half of the increase has been in the form of U.S. dollars acquired by the central banks of other countries. Without the growth of dollar reserves, the growth of world trade and payments would have been severely restricted and the world economy might have been subjected to serious deflationary pressures and instability.

In actual fact, the international monetary system has worked well. This is evident from the enormous expansion of world trade from \$55 billion in 1950 to about \$200 billion in 1967. The expansion of trade and payments and the stability of the international monetary system have been buttressed not only by growth of reserves but also by enlargements of international credit facilities. The resources of the International Monetary Fund were increased in two steps from over \$9 billion in 1958 to \$21 billion at present. A network of reciprocal currency agreements was established by the central banks of the large financial centers for swaps of each other's currency; the United States has such swap arrangements totaling \$7.1 billion with 14 central banks and the Bank for International Settlements. In order to help maintain confidence in the equivalence of gold and currencies at stable values, a number of countries formed a gold pool to maintain the orderly character of the London gold market.

These various measures helped the international monetary system to function effectively. Even so, it became evident that a more basic reform was necessary. The world can no longer depend entirely upon increases in gold and dollars to provide an assured and satisfactory growth of monetary reserves. The amount of newly mined gold available will not provide for an adequate increase in world reserves. And it is not desirable from the point of view of the United States or the rest of the world that the growth of U.S. liabilities, in the form of dollar reserves abroad, should continue as in the past. A steady increase in U.S. liabilities, while its reserves decline, exposes the international monetary system to the threat of instability.

The Rio resolution for the creation of Special Drawing Rights (SDR) represents a landmark in the evolution of an international monetary system responsive to the needs of the modern world. When this system is in operation, the growth of monetary reserves can be adequate without depending either on the uncertainties of gold mining and gold hoarding or on persistent deficit in the U.S. balance of payments.

The early availability of SDR removes one of the concerns as to the impact of the U.S. balance of payments program—namely, a slowing of reserve growth and a consequent adverse effect on world trade and income. Early activation of the SDR plan can maintain an adequate growth of world reserves together with restoration of U.S. balance of payments equilibrium.



### Strategy for payments improvement

The key resources which give the United States the strength to deal with its underlying long-range payments problem constructively and sensibly are:

—a strong economy with a gross national product in excess of \$800 billion, representing 40 percent–45 percent of world output;

—a large stock of foreign assets with powerful earnings potential. Gross assets abroad—public and private—total more than \$110 billion. Our net long-term asset position—approximately \$70 billion—has increased every year for 20 years. Private overseas assets alone now generate annual earnings of about \$6 billion.

—a basic trade surplus, on which we must build;

—a strong reserve position (nearly \$15 billion, or about 20 percent of world reserves), even after losses of the past few years.

We can build on these elements of strength and move toward balance of payments equilibrium through short- and long-range measures vigorously implemented. Furthermore, the passage of time will ameliorate forces that presently exacerbate the balance of payments deficit and hide the fundamental progress achieved.

Ideally, the United States would solve its balance of payments problem through a gradual, long-range approach in which there was no interference with the free movement of goods and services, capital, or people. Over the long run, the United States is, in fact, dedicated to just such an approach.

However, the situation that confronts the United States today requires prompt and major corrective action. Long-term measures alone that take hold gradually over time are not sufficient.

### The President's Action Program

President Johnson's program is designed to bring about a sharp reduction in the U.S. payments deficit in the year ahead, bringing it into—or close to—equilibrium. The program consists of general and specific measures, short- and long-range actions.

The first and essential requirement is stability in the U.S. economy. I will deal with this matter in more detail later in this statement, along with foreign travel and the trade surplus. Here I shall touch briefly only on three remaining parts of the Action Program, not of direct concern to this Committee:

1. *Direct investment.*—By Executive order and regulations issued under the Banking Law, a mandatory limit has been placed on direct investment by United States companies in foreign affiliates. The program, together with its accompanying provisions on the repatriation of foreign earnings, is expected to reduce the payments deficit by \$1 billion in 1968.

2. *Banks and other financial institutions.*—Revised guidelines have been issued by the Board of Governors of the Federal Reserve System for reducing foreign credits from U.S. banks and other financial institutions. The new guidelines are designed to bring a net inflow of at least \$500 million in 1968. The program is voluntary, although the President has given the Federal Reserve Board standby authority to invoke mandatory controls.

3. *Government expenditures overseas.*—The commitments for aid and defense, on which free world security depends, necessitate very large expenditures abroad. These costs have risen sharply because of the Vietnam War. Over the past 3 years, a stringent program has substantially reduced these foreign exchange costs. The President has, nevertheless, set a target of a further reduction of \$500 million in the foreign exchange impact of such programs in 1968.

Negotiations will be initiated promptly with our allies in Europe and in the Pacific to minimize the foreign exchange costs of our military spending abroad. They can help, as they have, by purchasing in the United States more of the equipment for their defense needs. They can also offset the adverse effects of our military expenditures on the balance of payments by investing part of their foreign exchange receipts in long-term U.S. securities. The Department of Defense has been instructed to find ways to reduce further the foreign exchange impact of personal spending by U.S. forces and their dependents. The President has instructed the Director of the Budget to find ways to reduce the number of American civilians working overseas. AID has been directed to reduce its foreign exchange costs by at least \$100 million in 1968.

### Long-range aspects of the balance of payments program

A drastic reduction in our balance of payments deficit is necessary to defend the dollar and to insure against a breakdown of the international monetary system. The action program will achieve this. The program will entail sacrifices in this country and it may cause difficulties for some foreign countries. In order to assure a fair sharing of these sacrifices, the program has been widely spread over all sectors of the U.S. economy. In order to minimize adverse effects on the world economy, the program distinguishes among groups of countries on the basis of their ability to absorb reductions in their foreign exchange receipts.

The action program is designed to deal with an emergency. We do not regard certain aspects of it as consistent with a long-range solution to our underlying balance of payments problem. Restrictive measures are temporary. The policy of the United States is to support the unrestricted international flow of goods, services, and capital under a stable international monetary system based on fixed values for currencies defined in terms of gold or the dollar, linked at \$35 an ounce. The world economy can operate most effectively only with a balanced pattern of international payments, achieved without restrictions. The international monetary system can function effectively only if monetary reserves can grow steadily at an appropriate rate without depending, as in the past, on a large infusion of dollar reserves derived from a payments deficit of this country.

An appropriate long-range balance of payments solution for the United States must be based on a substantial and growing surplus in trade and services, including earnings from U.S. foreign investments. The present trade surplus is too small. It must be increased substantially through an expansion of U.S. exports. The Government is taking measures to encourage exports. U.S. producers will be able to benefit from these measures only if they strengthen their position in world markets by maintaining competitive prices and costs.

The United States is eager—and working hard—to encourage foreign direct investment in this country and investment in U.S. corporate securities. Foreign companies whose products are already familiar to U.S. buyers would find direct investment very profitable. We have an enormous market, efficient labor, and easy access to advanced technology. The attractiveness of U.S. corporate securities has been enhanced by the Foreign Investors Tax Act of 1966. The benefits granted by this legislation, as well as other factors, should result in a moderate but steady inflow of investment funds from abroad.

### Responsibilities of our trading partners

The United States recognizes its responsibility for adjusting its own balance of payments, and it does not intend to shirk this responsibility. At the same time, it must be recognized that the U.S. balance of payments is part of a world pattern of payments. The counterpart of the deficits of some countries is the surpluses of other countries. Countries in surplus have a responsibility for adjusting their balances of payments and thereby facilitating the progress toward international equilibrium that the U.S. action program makes possible. They can meet these responsibilities by reducing their barriers to trade, by increasing their aid to less-developed countries, by sharing adequately in the cost of common defense, by encouraging capital outflows, and by maintaining a satisfactory pace of domestic economic expansion. As part of this vital adjustment effort, we should be able—indeed, we must find ways—to work constructively with our allies on forms of bilateral and multilateral financial arrangements designed to neutralize the foreign exchange consequences of the locations of our troops and those of our allies. The arrangements should be long term and provide financial viability to our alliances.

The growth of reserves of the rest of the world will be sharply affected by the reduction in the U.S. deficit. Yet many countries will wish to see a gradual increase in their reserves as their international transactions expand. Therefore, it is important to implement as speedily as possible the plan agreed in outline last September to create new international reserves in the form of Special Drawing Rights in the International Monetary Fund.

## II. TRAVEL PROPOSALS

In his message on New Year's Day the President pointed out that the travel deficit in our balance of payments this year will exceed \$2 billion. To reduce this deficit by \$500 million he asked the American people to defer for the next 2 years all nonessential travel outside the Western Hemisphere. He also asked me to explore with the appropriate congressional committees legislation to help achieve this objective. After some informal exchanges with the Chairman and ranking

Minority Member and a good deal of collaborative staff work by the Treasury staff and the staff of the Joint Committee on Internal Revenue Taxation, I am here to present some proposals to this committee which, if adopted, will help achieve this objective.

In addition to the President's request to forego nonessential travel outside the Western Hemisphere for 2 years, we will seek to reduce the travel deficit by two approaches:

A. Through a program to increase the number of travelers coming to the United States. This is the permanent part of our program. It will make possible a continued increase in international travel. This is in the interest of the United States and all other nations; and

B. Through customs proposals and temporary tax measures that would induce a reduction of United States tourist expenditures abroad with the least possible impact on the number of travelers. We are also recommending an extension of the existing domestic ticket tax to international travel. We would hope that a portion of the revenues produced by this extension would be made available to finance the promotion of foreign travel to the United States.

#### A. Measures to increase travel to the United States

The Johnson and the Kennedy Administrations have both recognized

—that the long-term solution to the travel deficit should not be found through restrictive measures but must be sought through the expansion in the number of foreign visitors to the United States.

—that the United States has unique attractions which, when adequately promoted, will attract far larger numbers of foreign visitors.

With these thoughts in mind, President Kennedy in 1961 proposed, and Congress passed, the International Travel Act which established the United States Travel Service. The USTS has over the years made a major contribution through its promotional activities abroad and has acted as a catalyst in advertising and sales promotion cooperation between Government and industry.

As part of his February 1965 balance of payments program, President Johnson asked Vice President Humphrey to form a Committee which would enlist the continuing efforts of high-level Government officials to increase coordination of activities affecting our travel receipts.

Concurrent with the establishment of this Committee, "Discover America, Inc.," was formed as a private non-profit organization to bring the elements of the United States travel industry together in an all-out effort to increase the size of the tourism market. This organization worked closely with the Vice President's Committee on Travel.

As an intensification of these efforts, President Johnson on November 16 announced the appointment of an Industry-Government Special Travel Task Force under the chairmanship of former Ambassador Robert M. McKinney. The Task Force is now hard at work in developing a whole series of recommendations to increase the flow of foreign travel to the United States. In particular, the objectives of the Task Force are

—to determine practical steps which can be taken quickly to produce early improvement in the travel sector of the balance of payments;

—to determine medium and long-term measures to bring U.S. travel expenditures and receipts into better balance, with recommendations on the necessary steps that should be taken in both the private and Government sectors to accomplish this objective; and

—to determine how best to help foreign visitors improve their knowledge and understanding of the United States and the American people through first-hand experience, thus providing a new bridge of understanding through tourism between the United States and other countries.

To facilitate a thorough investigation of the many facets of the problem, the Task Force has been divided into 12 working parties—eight dealing with suggestions geared toward private industry and four concentrating on efforts which the Government might contribute. I am attaching as an exhibit a copy of the release issued by Ambassador McKinney at the time of the organizational meeting of his Task Force describing the personnel and terms of reference of these working parties.

Ambassador McKinney informs me that that Task Force has received the enthusiastic cooperation of Federal, State, and local governments and of private industry, both foreign and domestic.

Through the Task Force's imaginative recommendations and the concrete steps suggested, Ambassador McKinney feels confident that travel costs to the United



States will be substantially reduced, inhibitions on travel removed and promotion of the United States as a tourist center more effectively achieved.

These steps should make a trip to the United States economically and otherwise feasible to hundreds of thousands of potential visitors who have not, as yet, had an opportunity to visit our shores.

Recommendations from the 12 working parties have been completed and are now under review by the parent Task Force, which will submit its report to the President by February 19.

Ambassador McKinney's report will include an action program some elements of which have already gone into effect and others of which will go into effect during the next few months. We expect the program to increase the number of travelers to the United States and U.S. receipts from travel. It will have a substantial impact this year and a growing impact in future years.

While the long-term success of this program to increase receipts from travel to the United States should remove the necessity for making permanent the short-term temporary tax measures to be proposed, it will take some time for this program to be fully effective.

#### **B. Measures to reduce U.S. travel expenditures**

The benefits of foreign travel need no elaboration by me. The free interchange of people is a basic tenet of democratic life and an ingredient of an expanding free world. But we must be prepared in times when our balance of payments is under the heavy pressure of war, and external circumstances require unusual and temporary measures in other areas affecting our payments, to try to hold down the dollars we spend abroad in travel as well as promoting increased tourism in the United States—particularly while the latter program is getting under way.

The number of Americans traveling abroad has been expanding at a high rate. For example, the number of U.S. travelers to Europe and the Mediterranean areas has grown from 637,000 in 1958, the year when our large recurrent balance of payments deficits began, to 1,570,000 in 1966. The figure was undoubtedly higher last year, although the exact number will not be known for some months.

In only one year during the period 1958 through 1966 did the increase in the number of travelers fall below 10 percent and that was in 1961 when the Berlin crisis deterred United States travel to the European area. Excluding that year, the average annual rate of increase in number of U.S. travelers was 14 percent.

The objective in the travel area, as in other parts of the balance of payments program, is to forge an effective device which, as far as feasible, avoids an undue burden either on those United States citizens or on those foreign countries least able to bear it.

With these general considerations in mind, I would like to describe the specifics of our proposal.

##### *1. General description of tax proposals*

The travel tax proposal contains two basic elements—

a. A permanent extension of the present 5-percent ticket tax on the cost of domestic airline travel to cover the cost of all airline transportation, whether within or without the United States, purchased in the United States and also a temporary extension of the tax to cover the cost of water transportation to a destination outside the Western Hemisphere.

b. A temporary graduated tax on the expenditures incurred in connection with a trip outside the Western Hemisphere. Expenditures would not include the cost of transportation to and from the traveler's foreign destination which it is proposed be taxed under the expanded transportation tax mentioned above.

The expenditure tax would generally apply to each traveler's expenditures in excess of \$7 per day of travel—with the first \$8 of the excess taxed at a 15-percent rate and the remainder at a 30-percent rate. The tax would apply only to trips undertaken during the period after the legislation is enacted and before October 1, 1969. Thus, it would apply to the 1968 and 1969 travel seasons.

Some general description of overseas travelers<sup>1</sup> will be helpful in understanding why we are recommending this particular tax structure.

<sup>1</sup> The following statistics relate only to travelers to Western Europe and the Mediterranean area, the only group for whom statistics are available. These travelers, however, represent 85 percent of all non-Western Hemisphere travelers.

Twenty-four percent of these travelers are going on business, 45 percent on vacation, 5 percent to study or teach, 18 percent "visiting", and 8 percent in miscellaneous categories. The visiting classification is made up of people, frequently foreign-born, visiting friends and relatives abroad.

The average length of stay is 33 days. The average daily expenditures are \$16.73 per person. However, averages are misleading. When the length of stay is analyzed by family income, we find that the lowest income travelers by far stay the longest, 51 days for those with under \$5,000 income. It is 26 days for those with over \$20,000 income. However, the amount spent per day varies as one might expect according to income. In the under \$5,000 group, it is \$9.63 per day, on the average, and in the over \$20,000 group on the average \$25.39 per day. These two factors, the variation in length of stay and the variation in per diem expenditures, produce the result that in the whole income group up to \$20,000, expenditures per trip are about the same in total. It is only over the \$20,000 level that expenditures per trip increase significantly.

The average cost of a trip to Europe is \$1,000, made up of a \$450 fare for the transportation over and back and \$550 expenditures while in Europe. A significant number of travelers, however, have over \$1,000 of expenditures, in addition to the transportation fare, while abroad. In fact, roughly one-half of the total travel expenditures are made by the travelers with over \$20,000 income—one-third of all travelers.

*Considerations in adopting this particular program.*—In developing this tax program, we carefully considered many alternatives. We believe that the particular package we are recommending will achieve the desired restraint in the most equitable manner. Let me list for you some of the principles we followed.

First, I have already mentioned, the ideal program would be one which achieved the balance of payments savings with a minimum of trip cancellations. This, of necessity, requires that the tax not fall heavily on those with modest incomes or those of any income level who choose to travel modestly in this period.

The proposed tax program—by being directed primarily at spending over a modest level—is consistent with this objective. The \$7 per day exemption, graduated rate, and the low rate of tax on transportation fare will all combine to keep the tax at a modest level for one traveling inexpensively. One spending \$15 per day would pay an expenditure tax of only \$1.20 each day. For a trip of 30 days, this tax (\$36.00) when combined with an average ticket tax, would produce a total tax bill of under \$60—about 6.5 percent of the \$900 cost of the trip. On the other hand, the exercise of restraint on each dollar of spending above this amount would be encouraged by a 30 percent tax.

For the low income traveler—students and foreign born visiting relatives and friends—who spend on the average about \$10 a day, the expenditure tax would be only 45 cents per day. Even for a 50-day trip the expenditure tax would be only \$22.50. When combined with an average ticket tax, the total would be \$45, or less than 5 percent of the cost of the trip.

Other forms of taxes—such as a flat tax per trip, a relatively high ticket tax, or a flat tax per day—which require every traveler to pay a specified amount regardless of his expenditure level, necessarily have their greatest impact at the lower income levels where the amount of tax is a proportionately higher percentage of the total funds available for expenditure than at higher income levels. They would achieve the necessary expenditure reduction primarily by causing large numbers of the less affluent to cancel their trips and would have little impact on the expenditures of the more affluent. On the other hand, the proposed \$7 per day exemption, together with the lower tax rate proposed on the next \$8 of expenditures per day are specifically designed to achieve the reduction of expenditures without substantial trip cancellations.

Moreover, since those in the lower income range tend to take longer trips and spend less per day, the proposal avoids graduating the tax on the basis of the length of stay.

A second principle followed in developing the tax program was that any tax restraint on foreign travel expenditures should continue to apply as the expenditures increase. An expenditure tax of the type we are recommending meets this objective by applying the deterrent on each dollar spent over a basic exemption level. In other words, each time a traveler contemplates making an expenditure, the tax will be a factor which he must weigh in making his decision. A flat tax per trip, or even per day, does not have this continuing effect on marginal spending.

The graduated rate of the tax is designed to achieve deterrence at all income levels. Under the proposal each dollar an individual spends above the level of \$15 per day would be subject to a 30-percent tax rate—double that applicable to amounts spent up to that figure.

A third principle which we have followed is that the tax program should be structured so as to preclude the necessity for providing numerous exceptions. We can all think of particular types of trips which we would not want cancelled. If the tax were in the form of a certain amount per trip regardless of the traveler's expenditures, it would inevitably have to be imposed at such a level as to act as a financial deterrent to large numbers of trips, particularly by lower income travelers. This, in turn, would create immediate pressure for exemptions involving very difficult judgments as to what constitutes a trip worthy of exemption. Moreover, specific exceptions produce complexity and administrative burdens.

The program we are recommending obviates the necessity of numerous exemptions, since the impact of the tax will be small on individuals who travel modestly.

These are the general principles we have followed in structuring our tax program. By meeting them, we believe that this program will accomplish its objective of reducing foreign travel expenditures with the least impact on the number of Americans traveling overseas and without, as the President put it in his State of the Union Message, "unduly penalizing the travel of teachers, students, business people and American people who have relatives abroad whom they want to see."

Let me now turn to a more detailed description of the tax proposals:

*Tax on transportation.*—Existing law imposes a 5-percent excise tax on the cost of air transportation. Generally, this tax does not apply to international travel. Our proposal would permanently extend this existing air ticket tax to all amounts paid for transportation where the tickets are purchased within the United States. The tax would also be extended temporarily to water transportation between the United States and a point outside the Western Hemisphere.

While the temporary travel tax is in effect this tax, rather than the ticket tax, would apply to expenditures for air and water transportation outside the Western Hemisphere after the traveler has reached his first stop scheduled for more than 12 hours. For example, the 5-percent ticket tax would apply to a flight from the United States to the first European stop and from the last European stop to the United States. All travel within Europe between arrival and departure would be treated as an expenditure, and taxable under the temporary travel tax. Moreover, where a ticket for transportation to the United States is not subject to the ticket tax because purchased outside the United States, it would be subject to an equivalent tax of 5 percent collected as part of the travel tax.

*Tax on travel expenditures.*—The travel tax would, with few exceptions, apply to all who travel outside the Western Hemisphere, and would apply to all expenditures made in connection with the trip except transportation to and from the United States, which as I explained above, would be covered by the ticket tax.

Each traveler would be entitled to an exemption of \$7 of expenditures times the number of days he is abroad. The next \$8 of expenditures times the number of days abroad would be taxed at a rate of 15 percent. All expenditures in excess of this amount would be taxed at a rate of 30 percent.

Thus, an adult traveler going abroad for 30 days and spending \$700 in addition to the cost of transportation from the United States would be subject to a tax of \$111 computed as follows—the first \$210 would be exempt ( $30 \text{ days} \times \$7.00$ ); the tax on the next \$240 would be \$36 ( $30 \text{ days} \times \$8.00 \times 15 \text{ percent}$ ); and the tax on the remaining balance of \$250 would be \$75 ( $\$250 \times 30 \text{ percent}$ ).

In the case of a nonbusiness traveler, the tax would apply to all expenditures—meals, lodging, entertainment, purchases of tangible personal property, and transportation not part of a continuous trip to or from the United States.

In the case of a business traveler it would apply to all expenditures for meals, lodging, entertainment, and travel as above but would not apply to other types of business expenses nor to the purchase of business assets, such as inventory.

Exemptions from the tax would be limited to the following:

1. Individuals (and their families) transferred or going abroad in connection with their trade, business, profession, or education, and remaining abroad for more than 120 days.
2. Individuals who establish residence outside the United States.
3. All U.S. Government travel.



With respect to U.S. Government travel, on January 18 the President directed the heads of all the Departments and Agencies to reduce official travel overseas to the minimum consistent with orderly conduct of the Government's business abroad. The Bureau of the Budget will issue instructions this week to the agencies calling for approval by the Department of State of each Government-sponsored trip to international conferences abroad. By March 15 agencies will report to the President specific measures they have taken to curtail overseas travel. Thereafter, they will report quarterly on progress in achieving the President's objective.

The mechanics of the expenditures tax would be relatively simple. Before embarking on a foreign trip, each individual would deposit at his port of departure an amount of money equal to the tax he expects to owe. Rather than keep an itemized account of all expenditures he would compute the tax on a "net worth" basis. To do this he would file a statement indicating how much money and traveler's checks he is taking with him. On his return, he would make a corresponding statement of the amount of money and traveler's checks he has with him and leave this with the Customs officials at his port of entry. His formal tax return would be required to be filed with the Internal Revenue Service within 60 days after his return and any tax due would be paid.

There would be special provisions to take care of expenses paid or facilities furnished by employers.

For the ordinary tourist, the tax base would be an amount equal to the difference between the money he left the country with and the money with which he returned, plus any expenses he prepaid or charged on a credit card during his trip and the amount of any personal checks issued abroad. This method of computing the tax will eliminate the necessity of any traveler having to keep a detailed record of his expenditures while abroad.

When a family travels abroad together, they would be permitted to file a joint return aggregating all their expenditures as well as their exemptions.

Enforcement of the travel tax would be carried out by the Customs Service and the Internal Revenue Service. It is fully expected that the tax will be both effective and enforceable. The formal return will be associated with the traveler's income tax return for audit purposes.

In summary, we are proposing a tax program aimed at encouraging travelers outside the Western Hemisphere to reduce their expenditures in 1968 and 1969. The balance of payments savings for this measure has been estimated in the neighborhood of \$250-\$300 million.

## 2. Customs measures

*a. Duty-free tourist exemption.*—The estimated value of articles acquired abroad and brought into the United States during 1967 by U.S. residents returning from countries other than Mexico, and Canada and the Caribbean area totaled approximately \$200 million. One hundred ten million dollars of this amount was brought in under the present \$100 Customs duty-free exemption granted to returning residents. A substantial reduction in this duty-free exemption would achieve a significant reduction in the value of articles brought into the United States by returning U.S. residents.

*b. \$10 gift exemption for parcels arriving by mail.*—An estimated 11 million packages arriving by mail during 1967 were admitted duty-free under the existing exemption for gifts valued at less than \$10. In addition, many other parcels, presently being admitted without payment of duty, would have duty owing if there were adequate Customs manpower available to assess the duty. The elimination of the \$10 gift exemption, and a more intensive processing by Customs of packages arriving from abroad by mail would bring about a decline in the shipment of such parcels to the United States. Since many such parcels are purchased by U.S. residents this would result in a significant balance of payments saving.

## Summary of proposals

In order to reduce foreign expenditures by returning United States residents and thereby achieve a balance of payments savings, we propose:

*a. Reduction of tourist exemption.*—The present \$100 duty-free exemption granted to returning U.S. residents should be reduced to \$10 for persons returning from countries other than Canada, and Mexico and the Caribbean area.

*b. Modification of gift exemption for parcels arriving by mail.*—The \$10 duty-free gift provision for articles arriving in the mail from abroad should be reduced

to \$1.00. This will be accomplished administratively under existing law. No change is proposed in the present \$50 gift exemption law applicable to gift parcels arriving from U.S. servicemen in combat zones.

*c. Modification of duty assessment procedures applicable to returning U.S. residents and to certain noncommercial parcels.*—In order to minimize the increased Customs workload implicit in the changes described above, the following flat rates should be made applicable:

1. A flat 25-percent rate of duty on all dutiable articles accompanying arriving travelers, provided their aggregate value does not exceed \$500 wholesale.

2. A \$2 charge on all dutiable noncommercial parcels arriving by mail which are valued at \$10 or less retail. Articles valued at \$1 or less will continue to be free of any duty or charge.

3. A flat 25-percent rate of duty on all noncommercial importations of dutiable articles arriving by mail, railway express, and other means of transportation, which are valued at more than \$10 retail but less than \$250 wholesale.

The new simplified rates proposed above reflect an average of the duty rates assessed currently under the Tariff Schedules on importations of the types under consideration. Without such a simplified duty assessment procedure, the changes recommended with respect to tourists' baggage and mail parcels would impose a staggering burden for the Bureau of Customs.

*d. Resulting balance of payments savings.*—It is estimated that implementation of all the above recommendations will achieve a balance of payments savings of about \$100 million.

Implementation of the above measures will entail increased administrative costs for the Customs Service and the Internal Revenue Service; and also for the Post Office Department to the extent its expenses in collecting the duty on parcels arriving by mail cannot be covered by postal handling charges because of the ceiling set under the Universal Postal Union Convention. Their ability to execute these measures is dependent upon the establishment of an adequate mechanism for reimbursement of these costs to the agencies involved.

This completes the outline of the measures which we propose be taken to effect a \$500 million savings in the balance of payments deficit resulting from foreign travel. This is intended to be a cooperative program involving the Congress, the Executive, and the American people. The problem is clear; the need for quick action is imperative; I urge you to give it your immediate attention.

### III. ACHIEVING AN ADEQUATE TRADE SURPLUS

The keystone of a sound international financial position for the United States and the dollar is a substantial trade surplus.

It is natural and desirable for a rich country like the United States to export investment capital abroad, to give foreign aid, to provide its share of the common defense, and to have large numbers of its citizens traveling abroad. But all of this is possible only if, in addition to incomes from foreign investments, the United States trade surplus is large enough to finance such expenses.

The United States has consistently had a trade surplus—an excess of exports over imports. In 1950–55 the surplus averaged \$2.2 billion; in 1955–60 it averaged \$3.8 billion; and in 1960–65 it averaged \$5.2 billion. It reached an all-time high of \$6.7 billion in 1964, but it narrowed in 1965 to \$4.8 billion and dropped much further in 1966 to \$3.7 billion, the lowest point since 1959.

There was some strengthening of our trade surplus in the first three quarters in 1967 but a sharp deterioration in the fourth quarter eliminated the anticipated gain in 1967.<sup>1</sup>

The question naturally arises: What happened to the fourth quarter trade figures?

Our best answer from the information available to date is that there was an *upsurge of imports*, more than any real worsening of our export picture, which produced this sharp decline in our fourth quarter trade surplus.

For the first three quarters of 1967, our quarterly trade surpluses were averaging about \$1.082 billion. In the fourth quarter however this rate of surplus deteriorated to only \$357 million, with nearly three-fourths of the deterioration on the import side and one-fourth on exports.

<sup>1</sup> The figures used are calculated on the so-called balance of payments basis. On a census basis the 1967 trade surplus was about \$4.1 billion, up less than \$300 million from the previous year. The primary difference between these two set of figures involves the ways in which certain military exports are handled.

Basically the upsurge in imports, which became particularly noticeable in November and December, reflects the further warming-up of the domestic economy. It was just this development which we were trying to anticipate in the President's tax message last August.

While some special factors were at work affecting fourth quarter trade, we cannot avoid the fact that we have again moved into a situation where the rapid growth in our gross national product in money terms will almost inevitably bring a more than proportionate rate of increase in our imports. This was the process which, as you will recall, brought in 1965-66 the increases of from 15 to 20 percent per annum in our imports as contrasted with 9.6 percent in 1964 and 5 percent in 1963.

But the problem is not limited to imports alone. Starting with the fourth quarter of 1966 and extending through the second quarter of last year our rate of export growth over the same periods a year earlier was averaging about 7 percent. In the third quarter of last year, the rate fell to 3½ percent and in the fourth quarter to less than one percent. The fact that this decline was mainly attributable to reduced exports of agricultural products does not lessen the need for a greater intensified effort to achieve and maintain a much higher rate of export growth.

Moreover, these are only the most immediate types of adverse impact on our trade from an expansion that is highly inflationary in character. In addition, wage and price increases of the kind we are already experiencing, accentuated by the further push of a new outburst of demand, could seriously undercut our long-term competitiveness in world markets if allowed to continue into a spiraling inflation.

Thus, very dramatically the events of the last quarter of 1967, underscored by a dwindling trade surplus, provide proof positive of earlier assertions of the important relationship of the tax surcharge to our balance of trade and payments and the international position of the dollar.

In his tax message of August 3 last year the President stated that failure to act on his tax proposals and to restrain unnecessary spending could have the most serious consequences including: "An excessive expansion of domestic markets could again quicken the flow of imports to the United States, while rising costs and prices cut into our exports. The position of the dollar as the key element in the world's financial system could be impaired."

This proposition developed in my previous appearances on August 14, 1967,<sup>1</sup> November 29, 1967,<sup>2</sup> and January 22, 1968 in connection with the surcharge must be again developed in any discussion of our overall balance of payments situation and what we propose to do about it. The keystone to the entire balance of payments program is the surcharge proposal you have before you, or some variation. The other direct measures added in the President's January 1 program to the pre-existing effort are not going to be as effective in dealing with the balance of payments problem unless these tax proposals coupled with expenditure controls, appropriate monetary policy, and a more effective voluntary program of wage-price restraint, are combined to stem the inflationary pressures which now threaten our trade surpluses, both long-term and short-term.

Let no one assume that this recent experience is an isolated phenomenon, unrelated to the past.

In the mid-1950's Europe and Japan were rapidly regaining their economic strength. Between the recessions of 1954 and 1958, the United States had a consumption and investment boom during which our price level for metals and machinery rose 20 percent (from the end of 1954 to the end of 1957). By the end of 1959 those prices—particularly important in determining our international competitive position—were nearly one-fourth higher than in 1954. With Europe and Japan steadily increasing their ability to produce goods for export, conditions were being created that would make it more difficult than before for the United States to achieve an adequate surplus in the current account of balance of payments—that is a current surplus sufficiently large to cover the flows of U.S. private and Government capital to the rest of the world. In 1959 our trade surplus dwindled to less than \$1 billion and it was only with the recession of 1960 that it rebounded to a more normal range.

Again in 1965 and 1966 the decline in our trade surplus from the peak level reached in 1964 can be related to the very high rate of growth of those years.

<sup>1</sup> See exhibit 20.

<sup>2</sup> See exhibit 23.



Indeed, had we held in 1965 and 1966 the trade surplus level reached in 1964 there would have been substantial balance of payments surpluses in both of those years.

Hence, our balance of payments deficits in the last 3 years strongly suggest that the trade surplus has been inadequate. To determine what should be done about increasing it we must examine the basic forces affecting U.S. trade.

U.S. exports and imports are strongly influenced by the pressure of United States domestic demand, by changes in the U.S. competitive position, and by economic growth and policies in our major overseas markets.

What impact do these interrelated factors have on our trade?

1. *U.S. competitive position in world markets.*—As can be seen in table I, in the 1960's, U.S. unit labor costs in manufacturing declined slightly while those of our major European competitors rose significantly. If changes in relative costs were the only determinant of export performance, then we should have noticeably increased our relative share of world markets.

TABLE I.—*Unit labor costs in manufacturing for selected industrialized countries since 1961*<sup>1</sup>

Country	1962	1963	1964	1965	1966 <sup>p</sup>
United States.....	99	98	98	97	99
Canada.....	99	100	100	95	99
France.....	107	112	118	119	116
Germany.....	107	111	111	117	123
Italy.....	108	118	124	122	118
Japan.....	108	113	111	118	125
United Kingdom.....	104	102	103	109	114

<sup>p</sup> Preliminary.

<sup>1</sup> Ratio of wages and salaries (and including supplements) to production; national currency basis.

NOTE.—Data relate to wage earners in Italy and to all employees in other countries.

SOURCES.—Department of Labor and Council of Economic Advisers.

In point of fact, the United States held its share of world trade between 1961 and 1964, as table II shows.

TABLE II.—*U.S. share of total world exports of manufactures*

Year	Percent	Year	Percent
1961.....	25.6	1964.....	25.8
1962.....	26.5	1965.....	23.6
1963.....	25.6	1966.....	23.5

NOTE.—An adjustment for declassified U.S. special category exports was made by subtracting \$1.0 billion from U.S. and world totals in 1965 and 1966. Excludes intra-EEC and intra-EFTA trade.

SOURCE.—United Nations Monthly Bulletin of Statistics, November and December 1967.

In 1966 and probably in 1967, the U.S. competitive position was eroded by increases in U.S. labor costs. Another important reason for the decline in the U.S. share of world exports in the past 2 years has been the sharp difference in rates of economic expansion in Europe and the United States.

2. *Impact of differences in economic expansion in the United States and Europe.*—The experience of the first half of the decade indicates the vital importance of sound domestic economic policies to growing U.S. trade surpluses. This is most clearly seen in an examination of the relationship of U.S. imports to the pace of U.S. economic expansion, as illustrated in table III.

As the annual growth rate in GNP (current prices) moves up, imports climb more than proportionately. In 1965 and 1966, a period in which GNP growth exceeded 8 percent per annum, our average growth in imports exceeded 16 percent per annum.

Clearly, it was not only the rate of increase of GNP that was the causal factor, but also the fact that the economic slack which had existed in the early 1960's was being taken up in 1965 and was completely eliminated in 1966. In short, if the United States can maintain a noninflationary pace of economic expansion, the growth in imports is likely to be much more moderate than in 1965 and 1966.

TABLE III.—U.S. gross national product and foreign trade, 1960-67

Years	GNP (current prices)		Imports			
	Billions	Change	Billions	Change	Change	As percent of GNP
		<i>Percent</i>			<i>Percent</i>	
1960.....	\$503.7	4.1	\$14.73	—\$0.58	—3.8	2.9
1961.....	520.1	3.3	14.51	— .22	—1.5	2.8
1962.....	560.3	7.7	16.19	1.68	11.6	2.9
1963.....	590.5	5.4	16.99	.81	5.0	2.9
1964.....	632.4	7.1	18.62	1.63	9.6	2.9
1965.....	683.9	8.1	21.47	2.85	15.3	3.1
1966.....	743.3	8.7	25.51	4.04	18.8	3.4
1967.....	785.1	5.6	26.89	1.38	5.4	3.4
Average 1961-64.....		(5.9)		(.97)	(6.2)	(2.9)

What happens in our major markets is obviously of great importance in determining the level of U.S. exports. When foreign economies—principally Western Europe and Canada—are expanding, total world markets are likely to be strong and U.S. exports are likely to rise with a general increase in world trade. Where expansion is weak—as it was when it slowed markedly in Western Europe in 1966 and 1967—world trade and U.S. exports suffered. From 1960-63 to mid-1967, European industrial production increased only 26 percent while U.S. industrial production rose 36 percent—U.S. growth being more than a third faster. This was a major factor in the \$1.7 billion decline in the U.S. merchandise trade surplus from 1961 to 1966.

3. *Foreign trade policies.*—Trade policy of foreign governments has an important impact on the U.S. trade accounts. The Kennedy Round, just completed, which will result in substantial reduction of barriers to trade, will strengthen national economies through expansion of both exports and imports. But, as far as we can now determine, this expansion will not basically alter the trade balance of any major country.

Other changes in trade policy, however, are not neutral in their impact on trade balances. In particular, recent changes in border tax adjustments—taxing imports and remitting taxes on exports—of some European countries, while consistent with the existing international rules of the General Agreement on Tariffs and Trade, will have an adverse effect on the U.S. trade balance.

The above discussion shows the crucial importance to the U.S. trade balance of maintaining a noninflationary expansion in the United States. As in 1966, excessive increases in income—especially when we have full employment—will be quickly translated into higher prices and capacity bottlenecks with a resulting surge in imports and a slowdown in exports. We need the fiscal action proposed by the President on August 3, 1967—expenditures restraint and tax measures, including surcharges on corporate and personal income taxes. The performance of our trade account in the last few years underscores the need for responsible financial management by the Executive Branch, the Congress, management, and labor.

With the economy picking up momentum in 1968, and with cost and price pressures increasing, we are faced not with the assurance of a continued improvement in our trade surplus but the threat of another downward movement.

All other efforts to improve our balance of payments position will be undermined unless we avoid the kind of excessive growth that floods us with imports and unless we return to relative price stability and cost competitiveness in the United States economy.

Business and labor also have an important responsibility to protect our trade surplus by:

—keeping wage demands and price decisions consistent with national productivity performance; and

—avoiding work stoppages or the threat of work stoppages in industries vulnerable to import or export competition at a time when our balance of payments position is under pressure.

Efforts to return to the price and cost stability that characterized the first 5 years of the decade require business and labor to exercise the utmost responsibility in their wage-price decisions. These decisions directly affect our competitive position at home and in world markets. Accordingly, the President has directed the Secretaries of Commerce and Labor and the Chairman of the Council of

Economic Advisers to work with the leaders of business and labor to make more effective the voluntary program of wage-price restraint.

The prompt enactment of the President's tax increase program is the single most important and indispensable step this nation can take now to improve our balance of trade and payments and protect the dollar and the international monetary system.

The committee will recall that in my appearance before you on November 29 and again on January 22, after noting the impact of devaluation of the British pound on the international monetary system and the ensuing disturbances in the gold and foreign exchange markets, I stressed the high responsibility we bear for the maintenance of a stable international economic and monetary system and the need to take steps designed to assure confidence and stability in markets here and abroad.

I stressed then and I emphasize again both the real and psychological importance of achieving a meaningful reduction in our budget deficit by reducing expenditures and a tax increase as essential elements of responsible financial policy. Since that time a national policy of expenditure control has become manifest in the enactment by Congress of the Continuing Appropriations Act last December. The President's budget is responsive in terms and in fact to this prevailing attitude in the Congress.

*But there has been no tax increase.* Once again, I repeat that the tax increase is the single most important symbol of this nation's determination to exercise fiscal discipline.

However, this is by no means the whole story on an intensified effort to achieve and maintain an adequate U.S. trade surplus. In addition to soundly managing the U.S. economy to keep it competitive and stable, we must work through international negotiating machinery, multilateral and bilateral, to keep world markets open by implementing the tariff reductions negotiated in the Kennedy Round and avoiding the unilateral imposition of statutory import quotas, which could lead to retaliatory action to which our trade surplus is uniquely vulnerable.

We must strive at home through improved export financing and export promotion measures to make U.S. industry more export minded and facilitate its export operations.

Finally, we must strive through international negotiations, both multilateral and bilateral, and, where necessary, through legislative measures to keep our exporters and importers in a fair competitive position in world markets. Ambassador Roth, the President's Special Representative on Trade Negotiations, is with me this morning to present a statement for the information of the Committee concerning this last aspect of the problems surrounding our trade surplus which is dealt with specifically in the President's January 1 message under the heading "Nontariff Barriers."

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**Exhibit 38.—Statement by Secretary Fowler and Chairman Martin of the Federal Reserve Board, March 14, 1968, on the temporary closing of the London gold market**

The temporary closing of the London market does not affect United States undertaking to buy and sell gold in transactions with monetary authorities at the official price of \$35 per ounce.

We have invited the central bank governors of the active gold pool countries to consult with us on coordinated measures to ensure orderly conditions in the exchange markets and to support the present pattern of exchange rates based on the fixed price of \$35 per ounce of gold.

The central bank governors invited are: Hubert Ansiaux, Governor, Banque National de Belgique, Belgium; Dr. Karl Blessing, President, Deutsche Bundesbank, Germany; Guido Carli, Governor, Banca d'Italia, Italy; Prof. J. Zijlstra, President, De Nederlandsche Bank, Netherlands; Dr. E. Stopper, President, Banque National Suisse, Switzerland, and Sir Leslie Kenneth O'Brien, Governor, Bank of England, United Kingdom.

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**Exhibit 39.—Washington Communiqué of March 17, 1968**

The Governors of the Central Banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States met in Wash-



ington on March 16 and 17, 1968, to examine operations of the gold pool, to which they are active contributors. The Managing Director of the International Monetary Fund and the General Manager of the Bank for International Settlements also attended the meeting.

The Governors noted that it is the determined policy of the U.S. Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the U.S. balance of payments is a high-priority objective.

They also noted that legislation approved by Congress makes the whole of the gold stock of the nation available for defending the value of the dollar.

They noted that the U.S. Government will continue to buy and sell gold at the existing price of \$35 an ounce in transactions with monetary authorities. The Governors support this policy, and believe it contributes to the maintenance of exchange stability.

The Governors noted the determination of the U.K. authorities to do all that is necessary to eliminate the deficit in the U.K. balance of payments as soon as possible and to move to a position of large and sustained surplus.

Finally, they noted that the Governments of most European countries intend to pursue monetary and fiscal policies that encourage domestic expansion consistent with economic stability, avoid as far as possible increases in interest rates or a tightening of money markets, and thus contribute to conditions that will help all countries move towards payments equilibrium.

The Governors agreed to cooperate fully to maintain the existing parities as well as orderly conditions in their exchange markets in accordance with their obligations under the Articles of Agreement of the International Monetary Fund. The Governors believe that henceforth officially held gold should be used only to effect transfers among monetary authorities and, therefore, they decided no longer to supply gold to the London gold market or any other gold market. Moreover, as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market. Finally, they agreed that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets.

The Governors agreed to cooperate even more closely than in the past to minimize flows of funds contributing to instability in the exchange markets, and to offset as necessary any such flows that may arise.

In view of the importance of the pound sterling in the international monetary system, the Governors have agreed to provide further facilities which will bring the total of credits immediately available to the U.K. authorities (including the IMF standby) to \$4 billion.

The Governors invite the cooperation of other central banks in the policies set forth above.

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**Exhibit 40.—Statement by the Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer, March 17, 1968**

During their meeting in Washington over the past two days, the active members of the Gold Pool have decided to stop supplying gold from monetary reserves to the London gold market or any other gold market. This decision is readily understandable as a means of conserving the stock of monetary gold which has recently been subject to heavy drains through such operations in the London market. The decision, of course, involves no departure from the obligation of these countries to maintain the par values of their currencies established with the International Monetary Fund.

Countries adhering to the Articles of Agreement of the Fund undertake to collaborate with the Fund to promote exchange stability and to maintain orderly exchange arrangements with each other. It is most important that the monetary authorities of all member countries should continue to conduct gold transactions consistently with this undertaking and that they should cooperate fully to conserve the stock of monetary gold. Such action will be an important contribution to the functioning of the international monetary system.

In the longer run it will not be sufficient simply to conserve global reserves. In this connection it is to be noted that work on the establishment of the special drawing rights facility in the Fund is proceeding on schedule. It is to be hoped

that this facility will enter into force with the least possible delay in order to make it possible to supplement existing reserve assets as and when needed.

**Exhibit 41.—Communiqué of the Ministerial Meeting of the Group of Ten,  
March 29-30, 1968, Stockholm, Sweden**

1. The Ministers and central bank Governors of the 10 countries participating in the General Arrangements to Borrow met in Stockholm on 29-30 March 1968, under the chairmanship of Mr. Krister Wickman, Minister for Economic Affairs of Sweden. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, the Secretary-General of the OECD and the General Manager of the BIS.

2. Ministers and Governors first discussed the international monetary situation and, second, they considered a report by the Chairman of their Deputies on a Proposed Amendment to the Articles of Agreement of the IMF which has been drawn up in accordance with the Resolution of the Board of Governors of the IMF adopted at the annual meeting of the Fund in Rio de Janeiro last September. This Amendment relates to the scheme for special drawing rights in the Fund, the Outline of which was approved at that meeting, and to improvements in the present rules and practices of the Fund.

3. The Ministers and Governors expressed great satisfaction with the action taken by the United Kingdom which is designed to achieve a substantial overall surplus in the United Kingdom's balance of payments by 1969. They also took note with equal satisfaction of the declaration made by the Secretary of the Treasury of the United States stressing how much the United States is conscious that early action is necessary, through appropriate fiscal and monetary measures, to improve substantially its balance of payments and that this objective is given the highest priority by the President of the United States in the interests not only of the U.S. economy but also of the general stability of the international monetary system.

4. The Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the present official price of gold.

5. They consider that, while the scheme to establish special drawing rights in the IMF referred to in paragraph 7 on which they have now agreed will not provide a solution to all international monetary problems, it will make a very substantial contribution to strengthening the monetary system.

6. Moreover, they intend to strengthen the close cooperation between governments as well as between central banks to stabilize world monetary conditions.

7. As regards the Amendment to the Articles of the IMF, the Ministers and Governors noted with appreciation the performance of the Executive Directors of the IMF in carrying out the task entrusted to them and agreed to give the necessary authority to the Executive Directors of their countries, so that, in cooperation with those of other countries, they will be able to complete the final draft of the proposed Amendment.

In approving the changes in the rules and practices of the existing structure of the IMF, the Ministers and Governors agreed to cooperate with each other and the other members of the Fund to avoid their application in any unduly restrictive manner.

They took note that this proposed Amendment will be attached to a Resolution which will be transmitted to the Board of Governors of the IMF with an explanatory Report and that Governors will be requested to vote by correspondence as is the usual practice of the Fund.

The Ministers and Governors noted that the Managing Director of the Fund was confident that the Executive Directors would be able to transmit these documents to the Board of Governors within a brief period.

8. One delegation did not associate itself with paragraphs 2, 4, 5, and 7 above, in view of the differences which it has found between the Outline adopted at the meetings in London and Rio de Janeiro and the draft text now submitted by the Fund and because the problems which it considers fundamental have not been examined.

Consequently, this delegation fully reserves its position and will wait until it is in possession of the final texts before reporting to its government.

**Exhibit 42.—Remarks by Secretary Fowler as Governor for the United States and Chairman of the Board of Governors, April 22, 1968, at the inaugural session of the 9th annual meeting of the Inter-American Development Bank, Bogota, Colombia**

Today we move another step forward in achieving the dreams and ideals of the outstanding patriots of the Hemisphere—from Bolivar and San Martin, Morazan, and Juarez, Washington and Jefferson, to the current expressions embodied in the declaration of the Presidents of the Americas at Punta del Este. The world, with its modern science, technology and communications, requires us to examine the tasks we have before us in the broadest context of democracy, tranquility, self-determination, social justice and the aspirations of the people of the Hemisphere.

It was a great honor for me, in my capacity as the Representative of the Government and people of the United States, to have presided over the Eighth Meeting of the Board of Governors of the Inter-American Development Bank. It is now my most happy task, as the outgoing Chairman of the Board of Governors, to welcome the delegates to the Ninth Meeting. May I express on their behalf our gratification for the hospitality extended by the Government of Colombia in offering for our deliberations this historic site—one that is so important in the history of this Hemisphere, the beautiful and cultured city of Bogota, where so many of the beginnings of our contemporary concepts of hemispheric solidarity were nurtured by the liberator—Bolivar.

In the tradition of Bolivar and the Congress of Panama of 1826, the Inter-American System formally began with the Washington Conference of 1889-90. The spirit of hemispheric solidarity developed constructively during the 1930's and 40's under President Roosevelt's "good neighbor policy." The Organization of American States was founded here in Bogota in 1948.

The movement for a cooperative hemispheric program for the development of Latin America found further expression in the 1950's in the Brazilian initiative known as "Operation Pan America" and in statements by a number of leading Latin Americans, including the current President of Chile, Eduardo Frei, and the President of this Republic, Carlos Lleras Restrepo. In this period our Bank was founded, and was given strength by the Act of Bogota of 1960, which recognized the need for greater social progress and more balanced economic growth.

In March of 1961, President Kennedy called for an Alliance for Progress. The Alliance was given specific expression that same year in the Charter of Punta del Este. Contained in this Charter was the aim of a "democratic modernization" of the continent, including a decisive economic and social advance. With the creation of CIAP—the Inter-American Committee for the Alliance for Progress—in 1964 to review the self-help efforts on the one hand, and, on the other, the adequacy of external assistance, the machinery of the Alliance was viewed in a new focus. It was just a year ago last week that the Presidents of the Americas convened in an historic meeting at Punta del Este, where a new action program was given to our Alliance. This, in the words of President Johnson, was "a response of farsighted Latin American leadership to the needs of present and future generations."

As part of this process the Bank's role in the social and economic development of the Hemisphere has undergone a profound change in the first period of less than a decade. The initial emphasis of the IDB on financing specific economic development projects has been substantially expanded. It now includes increased attention to social investment, cooperation in planning for the study and implementation of institutional reforms, and the promotion of multinational undertakings aiding the process of regional integration.

**The Bank and Latin American integration**

Since its early period, the Bank has sought to fulfill the hope and vision of President Herrera that it serve as "the Bank of Integration" within the Alliance for Progress. Its contributions in the field of regional integration already are manifold and include the preinvestment fund for Latin American integration, an institute for the study of problems of integration, a comprehensive examination of the prospects for the integrated development of such areas as the River Plate basin, as well as the commitment of substantial sums for integration projects.

The Bank's role in the integration process is one of broad significance. More is involved than the narrow function of providing technical and financial support



to projects that happen to involve both sides of some international boundary. The main impact of integration on intraregional relationships is already reasonably well understood. We should now recognize that the Bank's activities in support of integration are helping to propel Latin America as a region into new economic and trade relationships with the rest of the world.

The shape, speed and effectiveness of this integration will depend primarily upon the follow-through on the commitment by Latin American governments. But the Bank can and should stimulate and catalyze governmental and private action toward an outwardly oriented Latin American economy. The Bank can make difficult steps easier for governments by providing expert technical and capital assistance. The Presidents of the Americas agreed at Punta del Este to mobilize resources within and without the Hemisphere in support of integration. The Bank is the logical channel through which these funds can be applied. By thus performing its tasks in support of the creation of a unified Latin American economy, the Bank will, at the same time, be preparing the way for new and powerful Latin American voices to be heard in the world's trade and financial circles.

### Physical integration

With considerable realism, the Presidents at Punta del Este last year coupled their plan for the creation of a Latin American Common Market with a plan of equal daring for the creation of the physical underpinning which is basic to the emergence of a viable Common Market. The Bank is clearly a hemispheric body in a special position and especially equipped to supply both the required expertise and external financial resources for the creation of the facilities of physical integration.

For many years President Johnson, who has long held a deep personal interest in Latin America and its problems, has been concerned with the possibilities for major advances in tying Latin America closer together through physical projects. He wished me to greet you, and it would be particularly relevant if I read to you at this point the following letter, which I received from him just before my departure from Washington. :

"Dear Secretary Fowler :

"It has been a matter of pride that you, as United States Governor of the Inter-American Development Bank, have served during the past year as Chairman of the Board of Governors of that distinguished organization. Before you relinquish your duties as Chairman, I would appreciate it if you would convey the following personal message from me to the Ninth Annual Meeting in Bogota :

"It is a pleasure for me again to be able to salute the annual gathering of the Inter-American Development Bank—the financial cornerstone of hemispheric cooperation in the urgent tasks of the Alliance for Progress. Last year, the Governors took a far reaching action to expand the Bank's resources. The United States responded promptly with its \$900 million share over a 3-year period in the \$1.2 billion increase for lending by the Fund for Special Operations. Our Congress is now well along in its consideration of a \$412 million increase in our callable subscription to the Bank's ordinary capital. These expanded resources and the loans they will make possible hold the promise of record levels of achievements by a Bank that is already making a major contribution to Latin American development. Under Felipe Herrera's skillful and inspiring leadership, the Executive Directors and Staff have responded to the challenges before it.

"When I joined with my fellow Presidents of the Americas at Punta del Este a year ago this month, it was evident to all of us that the master key to full development of Latin America's rich human and natural resource potentials was the achievement of integration of the markets and economies of the Latin American community. We foresaw the vital importance of establishing a Common Market through the convergence of the Latin American Free Trade area and the Central American Common Market.

"It was equally clear that a necessary prerequisite was a solid beginning in achieving the physical integration of Latin America—building the visible and tangible interconnections that make possible the free interchange of economic factors—the roads and river systems, power grids and pipelines, transport and telecommunications.

"My thoughts since that historic gathering at Punta del Este have continued to dwell on the vast perspectives that lie in the physical integration process. The Inter-American Development Bank is in a position to play a leadership role in the work to be done in this field, as is the Inter-American Committee for the Alliance for Progress.

"We must organize hemispherically for this task and draw on the best available wisdom and expertise to plan the way ahead. I hope that your meeting and related ones in Washington this month will enable us to spell out in greater detail a mechanism by which we can, together, chart our way toward the bright prospect of the full realization of this fundamental goal of the Alliance."

This is the text of President Johnson's message to our meeting.

#### Financial resources in relation to operations

The special responsibility of the Bank for financing physical and other approaches to integration, as well as its continuing fundamental responsibility for financing economic and social progress within national frameworks, require financial resources adequate to the tasks. Our meeting last year set in motion major efforts to ensure that such resources would be available and more effectively used.

We must follow through on each phase of these efforts—replenishing the Fund for Special Operations, increasing the callable capital, increasing utilization of a part of the FSO contributions of rapidly advancing Latin American countries for projects in other member countries, expanding the ability of FSO to finance needed imports by reducing the use of its hard currency resources for local cash, and increasing the availability of resources from non-member countries.

#### The Bank, Latin America and the world economy

I have tried thus far to place the Bank's activities as described in its lucid and impressive Annual Report in their broadest regional perspectives. But there is an even broader relationship. That is the place of the Bank and its individual member countries, singly and collectively, as elements in an active, viable and effective world trade and payments system. In such an improved system, goods and services can move more freely across national boundaries and between continents and hemispheres, with public and private capital flowing easily in the directions indicated by both the need for economic growth and development and economic return.

In such a broad context, recent developments in the international monetary system, and the imminent prospect for major improvements in that system, are of great relevance.

We have confronted in the past year—and have surmounted—the most serious threat to the world monetary system of the post-war period. We are emerging into a period in which new strengths are becoming apparent. They are strengths born of a spirit of multilateral financial cooperation.

The March 17 action taken in Washington with respect to gold by the central banks of the seven members of the former gold pool, and subsequently endorsed by most other monetary authorities, has relieved the pressure of speculative private activity in gold, draining away official stocks. The favorable response in Latin America and elsewhere to the new monetary gold arrangements is another example of the same spirit of financial cooperation that brought this Bank into being and that will motivate all of us here today and in the future to continue our mutually beneficial cooperation as new opportunities emerge.

This year is one of great opportunity for the international monetary system. To assume adequate reserve growth to support expansion of world trade and payments, we should now turn our full energies to bringing into effect the new Special Drawing Rights facility in the International Monetary Fund. Latin America was the scene last September when, at the Rio conference of the Fund, a decision was taken to press forward with the proposal for a new reserve asset in the form of Special Drawings Rights.

The International Monetary Fund today released in Washington the text of the proposed amendment to the Articles of Agreement of the Fund that will permit the implementation of the Special Drawing Rights system. The resolution embodying these changes is being submitted to the Governors of the International Monetary Fund to be approved by them by May 31 as satisfactory for submission to member Governments for ratification.

For our part, I will promptly cast my vote as U.S. Governor of the Fund for the resolution approving the amendment for submission to Governments. After my return to Washington, I expect that early in the month of May legislation to authorize final acceptance of the SDR arrangements by the

U.S. Government will be submitted to the Congress, where I can assure you it will be vigorously pressed by the Administration and, I hope, accorded strong support by our lawmakers in both major political parties.

We can all view Special Drawing Rights as contributing to a better world economic structure, within which both expanding trade and development efforts can move ahead more effectively.

For a penetrating analysis of their particular meaning for developing countries, I commend for your reading the excellent study by the distinguished Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer, entitled "The New Arrangements To Supplement World Reserves and Their Implications for Developing Countries."

I do not wish to suggest that we regard SDR's as a panacea leading to an immediate solution of all world monetary problems. Nor should we have any illusions that SDR's will provide immediate solution for national balance of payments problems, either our own or yours.

The urgent business that requires my return to Washington tomorrow will have a direct effect on the ability of the United States to achieve balance of payments equilibrium and thereby strengthen the stability of the international monetary system. In that light, this business is of concern to each of you and the Bank as our trading and financial partners in the world economic system. I refer to our tax increase and expenditure reduction program, which will determine to an important degree our budgetary and aggregate demand levels in the crucial period ahead. An economy like ours, simply because it is huge, does not acquire immunity to the need for belt-tightening to bring dispositions of resources into better balance with availabilities of resources so as to avoid damaging and dangerous inflation. This is a problem which I know you will understand from your own experiences. Except for the question of scale, we all engage in the same difficult struggle to order our priorities wisely.

I deeply regret that I will not be able to remain with you all week. My experience in Mexico City and Washington convinces me of the great value of these deliberations. I shall continue to follow them closely through the U.S. Delegation. You may be assured of unflagging U.S. support for the multi-lateral goals and objectives of the Bank.

I wish you continued success in these important deliberations and invite the election of my successor to the Chair.

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#### Exhibit 43.—Remarks by Secretary Fowler, April 30, 1968, before the Chamber of Commerce of the United States, on the hour of fiscal responsibility

It is always an honor for me to meet with this distinguished group of business leaders who convene here at this season out of their concern with our national economic and financial problems and policies.

The timing of our meeting together is particularly propitious—for you because you escape a much more detailed speech since I must participate later today in a meeting with conferees of the House and Senate, a group of some of the most distinguished members of Congress, designated from the tax-writing Committees. The conference will seek to resolve the differences between the Tax Adjustment Act as passed by the House continuing certain excise taxes and the Senate act called "Balance of Payments and Domestic Economy Act of 1968" which does that and a great many more things, including increasing income taxes and reducing Federal expenditures.

This week you will be meeting your representatives in the Congress, and this morning's session gives me an opportunity to share with you my views on a topic which is at the top of the legislative agenda—what to do about taxes and appropriations. Let me say in advance that my remarks on this topic are meant to be calm, deliberate, unexcited and unemotional—and in prepared text—and not intended to give offense. In the spot I am in I cannot afford to be mad at anybody and I need help from all—particularly you and the Congress.

For in the month ahead, indeed the week ahead, in fact today, and in this very hour, your national Government, your Nation, and each one of us faces the hour of responsibility—the hour of sober fiscal responsibility. In it we must make a momentous decision.

That decision is whether or not we will pay our bills and order our economic and financial affairs in such a manner as to decisively reduce the twin deficits in our Federal budget and in our international balance of payments.



These deficits rose to such proportions in 1967 that, unless reversed and sharply reduced in 1968, they threaten to halt the tremendous economic progress the United States has made over the past 7½ years and the remarkable accomplishments achieved by the free world economy over the past 20 years.

These twin deficits menace the continued strength and stability of the American economy, the future of the economies of many other nations whose destinies are closely linked to ours, and the viability of the international monetary system, which depends so heavily on a strong U.S. dollar as the world's principal reserve and business transaction currency.

The deficit in the U.S. balance of payments has been persistent for a number of years. It has caused a heavy loss in the liquid reserves behind the dollar. Although each year has seen an increase in our overall net asset position, including long-term as well as short-term assets and liabilities, our liquidity position as the world's banker has steadily weakened because of this increasing imbalance in our short-term position. This situation has been tolerated in the financial world primarily because of the strength and competitive capacity of the U.S. economy which has been capable in each of the last 7 years of producing a substantial trade surplus.

But, in the last 6 months a sharp increase in our balance of payments deficit has been accompanied by a serious deterioration in our trade surplus, resulting from an economy that is growing at too fast a rate of speed, growth that is accompanied by an unacceptable rate of inflation, a wage-price upward spiral, and work stoppages, real or threatened, affecting key sectors of foreign trade.

A major contributing factor to the current balance of payments situation with its declining trade margin, and one that threatens our future prosperity and the stability of our domestic economy, is the coincidence of a highly stimulative deficit in our internal Federal budget this fiscal year with a period of expanding economic activity.

And what is more frightening is the massive deficit—in excess of \$20 billion—projected for the next fiscal year—unless in the weeks immediately ahead the U.S. Congress—whose members you will be meeting this week—adopts a legislative package of fiscal restraint that combines a substantial income tax increase with a reduction in the expenditures and appropriations projected in the January budget.

Given our high employment economy with heavy defense expenditures, some inescapable increases in the civilian costs of Government, and a private economic sector that is advancing sharply on a wide front, the acceptance of enlarged deficits in the budget and the balance of payments is contrary to sound economic and financial policy—against all the wisdom either of conventional or the so-called new economics. Accordingly, it is the inescapable responsibility of the Government to use fiscal and monetary policy to reduce these deficits and to brake the economy to a safe cruising speed.

We are facing nothing less than a test of representative government in economic and financial affairs.

The ability of the United States to sustain strong, stable and noninflationary growth is now being severely challenged and tested. The manner in which we respond to this test will determine our national capacity to avert the swings of feverish inflation, as well as the despair of recession or stagnation, by the intelligent use of a flexible fiscal policy conjoined to appropriate monetary policy. Make no mistake. Our economic future and that of the entire free world are at stake in this hour of fiscal responsibility.

The strength of the world economy and the continuance of a viable international monetary system depend to a large extent on a sustained level of stable economic growth in the United States and the maintenance of a sound dollar—sound in terms of prices and exchange rates.

This is true at all times, but particularly at a time when confidence in that system has been shaken, as it was last November by the devaluation of the British pound and a number of other lesser currencies, and the speculative buying of gold that cost the United States more than \$2 billion of its gold reserves in these last 6 months.

We simply cannot—must not—under these circumstances continue to accept these twin deficits in our balance of payments and internal Federal budget. To do so is to forsake prudence, take intolerable risks, and refuse to exercise the fiscal discipline required for the preservation of a balanced prosperity. And without such a balanced prosperity, we can never hope to achieve our national

goals of peace and progress abroad and domestic tranquility at home born of shared opportunities and benefits of our free private enterprise system.

That is not just the view of the Secretary of the Treasury. It is shared by the President, Chairman William McChesney Martin and the entire Federal Reserve Board, the Council of Economic Advisers, and the vast preponderance of economic and financial authorities, private and public, here and in other lands.

It is a view shared by many members of Congress of both parties including a substantial majority of the Senate, reflected in the voting in late March and early April on the Act referred to earlier.

But as yet, that sentiment has not been translated into the decisive legislative action that is necessary.

What are the principal measures the Nation is asked to accept temporarily so that we can assure a safe passage through these financial shoals to continuing prosperity and security, while meeting our urgent national responsibilities at home and abroad? They are these:

1. A temporary increase in personal income taxes amounting to an average of one penny on every dollar of income we earn and a temporary ten percent surcharge on corporate tax liabilities.

2. A cut in Government expenditures and appropriations usable in the next fiscal year beginning July 1 for Federal programs of lesser priority and urgency. Some of these are identified on pages 20 and 22 of the President's January budget message.

3. Appropriate monetary policy which in this period calls for moderation in the provision of additional credit and money supply.

4. Avoidance of highly inflationary wage-price decisions and crippling work stoppages, real or threatened, that induce an increase in imports and interfere with export expansion.

5. Reductions in our expenditures overseas, both governmental and private, except where they are absolutely essential to our national commitments.

Having earlier recommended the tax increase and additional measures of expenditure control and reduction in his message on August 3, 1967, President Johnson incorporated these proposals, together with a broadened and more stringent series of balance of payments measures, in his New Year's Day Message to the Nation.

This program includes unwelcome and unpleasant measures. It involves temporary sacrifices by the American people, our businesses and our banking institutions. We do not like to ask them—we cannot afford to ask less at this point of our history. Too much is at stake for us to rely on halfway, business-as-usual measures, hoping that they will suffice, thinking that we still have lots of time to come to grips with our financial problems. The simple fact is that—we are running out of time—and neither the United States nor other nations can wait much longer for us to bring our financial affairs much closer to balance.

Fiscal restraint is even more urgently required today than it was when the President recommended it to the Congress nine months ago. A tax increase on the scale recommended then, coupled with reductions in Federal expenditures, has been and continues to be the single most decisive and important action we can take to protect our economic security and strengthen the dollar.

At the direction of the President, my colleagues in the Administration and I, and the Chairman of the Federal Reserve Board, have sought this tax increase and effective measures of expenditure control diligently and persistently—last August, again in late November, again in January. We pressed hard again in mid-March in the midst of the gold crisis.

It is now clear that the case presented then, and challenged by some, has been abundantly confirmed by developments.

Last August and on these later occasions, we urged that a tax increase, along with expenditure control, was necessary if the 1968 budget deficit then projected in excess of \$20 billion was to be substantially reduced, thereby

- (a) avoiding a coincidence of a highly stimulative deficit with a rapidly expanding private economy which would make the combination increasingly inflationary.

- (b) minimizing the Federal credit demands which would otherwise induce substantially higher interest rates and tighter credit.

- (c) protecting our trade surplus from the decline that invariably accompanies an excessively exuberant economy.

- (d) maintaining confidence in the ability of the U.S. Government to put its financial house in order.

But there were those who insisted that a tax increase was not necessary, if only expenditures were reduced. In the field of expenditures, there was much talk and some action.

From August through November, appropriation bills for the entire range of Federal activities were enacted by the Congress. Upon the recommendation of the Administration, Congress enacted a law providing an omnibus, cross-the-board cut in all controllable expenditures. As a result of these actions there were specific reductions in expenditures for many budgeted items totaling \$4½ billion.

But there was no tax increase.

What was the result?

Today the 1968 budget deficit is still running as high as it was last August.

Why?

Because while controllable expenditures were being reduced, others less controllable such as Vietnam war costs, interest on the public debt, and matching payments to States required by law were increasing.

Last August there were those who opposed the tax increase because they doubted the economic forecast of a fast-rising economy after the slow start of early 1967. What happened?

The gross national product increased more than \$16 billion per quarter in the second half of 1967 in contrast with less than \$6.5 billion per quarter average in the first half. And the increase in the first quarter of 1968 was an extraordinary \$20 billion, exceeding all previous records. Inventory accumulation in the first quarter of 1968 was unusually low, so that final sales were up by an enormous \$25 billion.

Last August there were some who doubted there would be an inflationary trend in the absence of a tax increase.

In the hot-house atmosphere of excessive demand, prices and wages were bound to rise sharply. The evidence that this is already happening is as plain as can be. In the first quarter, the GNP deflator rose at more than 4 percent at an annual rate. The consumer price index has advanced about 3¾ percent in the past year, and wholesale prices recently have shown very rapid advances. Wage settlements have become more inflationary. All of these developments, of course, create serious burdens and inequities at home and are a major detriment to our international competitive position.

The view is sometimes expressed that the inflationary pressures that we are now experiencing should largely be ascribed to "cost-push" rather than "demand-pull." The fact is that in recent quarters, the advance in overall demand has accelerated sharply and that over the same period, there has also been a very substantial step-up in prices.

It simply is not reasonable to assume that these developments are unconnected. It is true that part of the present push for higher wages is based on a desire to catch up with prior increases in the cost of living. It is also true that if fiscal measures taken now should succeed in reducing overall demand pressures, cost-push elements will still represent a substantial problem for the economy for some time to come. But this in no sense implies that there is no connection between overall demand developments and price pressures. Indeed, if proper fiscal action is taken now, we will still have a fighting chance to move the economy gradually back toward price stability, both by reducing demand pressures on prices and by creating a better environment for coping with cost-push. If, on the other hand, we fail to take steps to contain excessive demand, the prospects of finding any effective ways of coping with upward price pressures from the cost side are virtually nil.

Last August we spoke about a continuance of the Federal deficit at a \$20 billion level resulting in heavy burdens on the credit markets. I don't have to tell this audience what has happened to interest rates and credit. Rates have increased in all categories and credit is getting tighter—and the end may not be in sight unless there is a tax increase.

Last August we said our balance of payments position would be serious without a tax increase. It did become serious largely because of a sharp deterioration in our trade surplus that accompanied a too-rapid advance of aggregates of economic activity.

Action on the tax proposals has become the symbol all over the world of our willingness to manage our financial affairs as befits the country which provides the world's leading reserve and transaction currency. It has been the matter



of gravest concern to my fellow Finance Ministers in every international gathering I have attended since August and in innumerable bilateral exchanges here in Washington. America is on trial on the issue of fiscal responsibility. More is expected of us—because ours is a reserve currency country. We are the world banker and the foreign holders of our dollars are, in effect, owners of demand deposits in our bank.

Confidence in the dollar has suffered somewhat because of the failure, up to now, of the United States to increase taxes and pay its bills in a manner conducive to the health of the economy and stability of the currency.

But happily this is not the end of the story.

It is the duty of the Secretary of the Treasury to speak plainly on these matters. And I have done so in the past as I do now.

But it is also his duty to keep trying, to retain hope, and to have confidence in the ultimate capacity of representative government to do what is plainly right even in an election year.

It was out of this confidence that I said in mid-March, during the week of the last climactic run on the London gold market, to the Senate Finance Committee:

"In the light of all these factors, it seems to me that all reasonable men who want to preserve their country's economic and political viability ought to come together and put a tax bill on the books and do that promptly, and I hope the Congress will manage to do that within the next 30 days."

Let us review what has happened since that expression of hope.

On the following weekend, the Governors of the central banks of the seven participating gold pool countries met in Washington and took historic decisions to divorce the exchange of gold reserves among monetary authorities from the nonmonetary markets, giving rise to a two-price system.

Two weekends later the Finance Ministers and Central Bank Governors of the Group of Ten, the major financial powers, met at Stockholm. Except for the representatives of France, they reached agreements that enabled the Executive Board of the International Monetary Fund to conclude and release its Report on the Amendment of the Articles of Agreement of the International Monetary Fund providing for the deliberate and orderly creation of Special Drawing Rights, as new reserve assets to supplement gold and dollars. This will be the subject of a Presidential message to Congress later today.

These significant decisions, however important to preserve and improve the workings of the international monetary system, are no final answer to the inadequacies of that system that stem from the deficits in our balance of payments and the waning confidence in the holdings of reserve currencies such as the dollar.

In their recent communiqué on March 17<sup>1</sup> the Central Bank Governors noted that an underlying premise for the measures taken was their belief that "it was the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the U.S. balance of payments is a high priority objective."

This was but a realistic recognition of the fact that, without the maintenance of stability of the dollar as a reserve currency, all efforts to preserve, maintain and improve the international monetary system are endangered.

Because of intervening developments in both the Senate and House, I was able to say to my colleagues at Stockholm on March 30:

"Fortunately I am able to report to you that there is a rising tide of feeling in the Congress that the time for decisive action on the fiscal front is approaching. There is a growing sense of urgency that our financial situation must be corrected if representative government is to perform its function in meeting the necessities of the people rather than satisfying wishful thinking."

I did not give these assurances lightly. Before leaving for Stockholm I had noted, as you must have, that a bipartisan coalition, led by Senator Smathers of Florida and Senator John Williams of Delaware, supported by both Senate Majority Leader Mansfield and Minority Leader Dirksen, had registered the clear conviction of a sizable majority of that body favoring a legislative package that combined in a single bill the President's tax proposals with specific and concrete measures for reductions in budgeted expenditures for fiscal 1969.

Moreover, as a result of extended consultations with Members of Congress, I had concluded and had publicly stated that it was my belief that a responsible

<sup>1</sup> See exhibit 39.

majority in the Congress is coming to the inescapable conclusion that we must increase taxes temporarily, and that if taxes are to go up, the increase must be made temporary by conjoining it in a procedural form yet to be determined with a reduction in the financial outlays and obligations projected in the January budget.

I said on March 26, while speaking in Philadelphia, "The procedure by which a formula for combining spending reductions and a tax increase is to be devised and enacted is a matter for decision by the Congress, its tax writing committees, its appropriations committees, and its leadership."

May I add only that everything that has happened since that time has confirmed these views and this confidence.

On March 31 the President of the United States set country above self—and above all personal partisan causes—by foregoing any plans to continue in the Presidency beyond next January 20. In so doing he said:

"The Congress is now considering our proposals, and they are considering reductions in the budget that we submitted. As part of a program of fiscal restraint that includes the tax surcharge, I shall approve appropriate reductions in the January budget when and if Congress so decides that that should be done.

"One thing is unmistakably clear, however. Our deficit just must be reduced. Failure to act could bring on conditions that would strike hardest at those people that all of us are trying to help."

On April 2 the Senate adopted the Williams-Smathers amendment providing for the tax increase and a cut in expenditures. On April 5 the House and Senate conferees began their deliberations; they were continued on April 10 and resumed on April 24 after the Easter recess, and will continue today.

Given the Government's serious financial situation now recognized on all sides, I am confident that the men of wisdom, experience and patriotism who are involved will not permit disagreements over details or procedures, or marginal differences as to the degree of expenditure reduction required, to prevent decisive action to reduce our twin deficits to manageable proportions.

And that decisive action should be early and soon. Additional delay only increases the risks.

It continues to be my hope and expectation that appropriate modifications can be developed which will satisfy the conferees on the substance of the bill; and that suitable procedures satisfying the rules and prerogatives of both Houses can be devised so as to permit early and favorable consideration of the agreed-upon measure by both Houses.

In this process the individual Congressman or Senator will not get just what he would prefer for his constituents or for the nation. Nor will the President, given the special constitutional power of the Congress over the purse. Neither will you or I. But acting together we can do what needs to be done—take care of our essential needs at home and abroad in a manner that will keep our economy stable and the dollar strong.

In this hour of national fiscal responsibility I ask for your help and I am confident of the result.

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**Exhibit 44.—Statement by Secretary Fowler, May 1, 1968, before the House Committee on Banking and Currency, on H.R. 16911, a bill to provide for U.S. participation in the facility based on Special Drawing Rights in the International Monetary Fund**

# I

I appear before this committee today to recommend action on H.R. 16911 which would authorize the President to accept the amendment proposed by the Executive Directors of the International Monetary Fund to the Governors of that institution. The legislation would also give congressional approval for U.S. participation in the Special Drawing Account that would be established by the amendment in order to implement the Special Drawing Rights facility.

The amendment is the first that has ever been negotiated since the adoption of the Articles of Agreement of the Fund, approved by the Congress in the Bretton Woods Agreements Act of 1945. There have been several increases in the resources of the Fund, the last being approved in 1965. In 1962, the Congress approved legislation providing for U.S. participation in the General Arrangements to Borrow, under which a group of 10 advanced countries undertook to

provide credit lines to the International Monetary Fund that could be used to meet a threatened impairment of the monetary system.

Through these various actions, the Congress has kept in touch with the growth of the International Monetary Fund from an institution with global quotas of around \$7 billion in 1945 to an institution having global resources in all currencies of over \$21 billion today.

The amendment does effect some changes in the rules and practices of the Fund governing its traditional credit operations, but the primary purpose of the Amendment is to establish in the Fund a new function different from that originally contemplated. This function is to provide a supplementary reserve alongside the traditional components of the world's monetary reserves—gold and foreign exchange.

The amendment is consistent with the recent important decision taken in the Washington Communiqué of March 17, 1968,<sup>1</sup> with respect to gold. It was the prospective establishment of the Special Drawing Rights facility which enabled the members of the gold pool central banks to indicate on March 17 that "as the existing stock of monetary gold is sufficient in view of the establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

These two decisions—the amendment and the communiqué—represent a giant stride forward in the long process of supplementing gold and of developing forms of money, both domestic and international, that are essentially entries on the books of domestic or international banking or monetary institutions, the outstanding volume of which is deliberately controlled.

Domestically, advanced nations have almost completely eliminated metallic money, except for subsidiary coinage. The money of commerce, internally, is paper currency and bank deposits.

In the international field, the evolution of the monetary system has proceeded somewhat more slowly. Metallic money in the form of gold has retained a much more important role in the international monetary system.

Nevertheless, even in this sphere the march of progress has led to supplementing limited supplies of monetary gold through the gold exchange standard. Under this system, the domestic money of certain countries—primarily the United States and the United Kingdom—has been used by other countries as a form of international reserves.

In 1950, gold comprised 70 percent of the world's reserves. By 1967 this proportion had fallen to 54 percent largely because of substantial additions to foreign holdings of dollars (see Chart I).

While the world has seen an unprecedented period of sustained prosperity under this gold exchange standard, the associated deficits of the reserve centers have given rise to well-known difficulties and problems. In order to develop a supplement to gold and foreign exchange that would avoid these difficulties, there have been 2 years of studies and 3 years of negotiations. These have resulted in devising an international reserve asset that can be used to assure the future growth in reserves, without depending on gold or continuing deficits of the reserve centers. The Special Drawing Rights are not a temporary feature, but are intended as a permanent addition to international reserves.

The related decision in the Washington Communiqué resulted from the drain of monetary gold into the private market, occasioned by speculation in gold. It introduced the two-tiered gold system, which logically calls for the isolation of the monetary stock of gold from the private commodity market in gold. This, coupled with the advent of the Special Drawing Right, points to a decline in the relative importance of gold in the total of global reserves. The SDR Amendment signalizes in a formal international way that Special Drawing Rights should have a place of rising importance as a component of world reserves.

Federal Reserve Chairman Martin and I have been privileged to represent the United States in the discussions and negotiations of the Finance Ministers and Central Bank Governors of the Group of Ten. Chairman Martin represented the Federal Reserve System in the meeting of the gold pool countries held in Washington on March 17, 1968. Under Secretary Frederick L. Deming and Governor J. Dewey Daane of the Federal Reserve conducted negotiations as members of the Deputies of the Group of Ten. Under Secretary Deming also chaired an interdepartmental group, which has met frequently to develop the

<sup>1</sup> See exhibit 39.



U.S. substantive positions and negotiating posture. Particularly during the past few months, William B. Dale, U.S. Executive Director on the Executive Board of the Fund, has carried the responsibility of representing the United States in the almost continuous daily sessions of the Executive Board, which hammered out the final text.

The National Advisory Council on International Monetary and Financial Policies has prepared a Special Report to the President and to the Congress on the proposed Amendment to the Article of Agreement of the International Monetary Fund. The Departments and agencies that are members of the Council include the Treasury, State, and Commerce Departments, the Board of Governors of the Federal Reserve System, and the Export-Import Bank. The Council examines the role of the Special Drawing Rights in the international monetary system, indicates the main characteristics of the Special Drawing Rights, reviews the negotiations, comments on the proposed changes in present rules and practices of the Fund, and gives a brief explanation of the proposed legislation. The Council strongly recommends the enactment at this session of Congress of legislation which would permit the United States to accept the Amendment and thus encourage early acceptance of the proposed Amendment by other countries.

The Special Drawing Rights Amendment is not just an American success. It is a joint creation of many countries actively participating in the negotiations. It is a victory for international monetary cooperation. It is a clear recognition of the community of interest which binds us all. It is a demonstration of the willingness and the determination to make the international monetary system work on the basis of the multilateral framework on which it was built almost a quarter of a century ago at Bretton Woods.

For this foresight and dedication to the common good we are indebted to many in the Group of Ten and the International Monetary Fund. It was Robert Roosa who, as first Chairman of the Group of Ten Deputies, began the studies that recognized the need for a new reserve asset. It was Rinaldo Ossola of Italy who in 1964-65 conducted the pioneering technical studies that brought us to the point where practical negotiations could begin and, 3 years later, as the third Chairman of the Group of Ten Deputies, helped pave the way for agreement at Stockholm. The technical skill and imaginative, patient diplomacy of Otmar Emminger of Germany, as second Chairman of the Group of Ten Deputies, took us over two difficult years of negotiations culminating in the Outline Plan which was formally endorsed by the Fund in Rio de Janeiro in September 1967.

The Plan is also an achievement for the International Monetary Fund, which will equip that institution and its member countries to adapt operations to changing conditions.

Special Drawing Rights participation is open to all members of the Fund and all members can participate in the benefits and obligations of the Facility on an equitable basis, determined by existing quotas. We strongly supported this objective. It was achieved in no small measure because of the wisdom, perseverance and responsibility of the Executive Directors of the Fund, who joined with the Deputies of the Group of Ten in writing the Outline Plan, and in 6 months of intensive effort prepared the proposed Amendment. But most of all, the entire effort owes much of its success to the Managing Director of the Fund, Pierre-Paul Schweitzer, and to his staff. More than any other man he has represented the world's interests, and with impartiality, unusual foresight and diplomatic skill guided the negotiations to a successful conclusion.

## II

I want to acknowledge the very great assistance and support which the U.S. negotiators have received from members of the Congress of both parties. The assurance that there was not only such support, but also a keen interest in the subject on the part of congressional committees and individual members of the Congress has encouraged us at all stages of the negotiations.

I cannot here acknowledge specifically all those members of Congress. But I will mention briefly some instances to indicate how closely our efforts have been stimulated and our progress reviewed in the Congress.

The Subcommittee on International Exchange and Payments of the Joint Economic Committee, under the Chairmanship of Congressman Reuss, has taken a specific interest in the improvement of the international monetary system. In August 1965 that committee issued a report that cited the pressing need for

action to assure the orderly and adequate expansion of international liquidity. The committee set forth a series of Guidelines which became basic points of reference in the development of the U.S. posture in these negotiations. Eight of these Guidelines related to the creation of a new reserve asset and its relationship to gold and to reserves in the form of dollars and other reserve currencies. Other Guidelines dealt with international credit facilities, IMF quotas and the process of adjusting international imbalances of payments.

Valuable contributions to our thinking, and to development of the U.S. position were made by former members of the Joint Economic Committee, Robert F. Ellsworth of Kansas and Senator Paul Douglas of Illinois. Congressmen Reuss and Ellsworth surveyed the European situation in a fact-finding trip in November 1965 and set forth their findings in a special report, covering international monetary reform as well as the balance of payments adjustment problem and other aspects of free world economic cooperation.

Early in 1967, the Joint Economic Committee itself, under the Chairmanship of Senator Proxmire, reporting on the January Economic Report of the President, issued a "Statement of Agreement by majority and minority members of the Joint Economic Committee." Paragraph 6 of that statement reads in part as follows:

"6. In the field of international trade and finance, there is also general accord on the following conclusions:

"Agreement on international monetary reform is a matter of increasing urgency.

"We cannot rely on supplies of new monetary gold being sufficient to assure the growth of international reserves, in keeping with the rising liquidity requirements of trade."

This is one of many instances of the strong bipartisan support from the Congress for action in the field of international financial and monetary institutions. It continues the experience dating from the original Bretton Woods Agreements Act, under which legislative action involving the International Monetary Fund and the International Bank have generally had support from members of Congress without distinction as to party affiliation. At the very outset of negotiations, Congressman Gerald Ford and other Republican leaders lent their influence to our taking the initiative in seeking monetary improvements.

I cannot recall here all the many important statements on this and related problems made by leading Senators and Congressmen. Among this group there are such names as Senators Clark, Proxmire, Hartke, and Javits and Representatives Reuss, Widnall, and Halpern.

Just prior to the Annual Meeting of the International Monetary Fund in Rio de Janeiro last September, I appeared before the Subcommittee on International Exchange and Payments of the Joint Economic Committee and reviewed the Outline Plan for the Special Drawing Rights which had been approved at a meeting of Ministers and Governors of 10 major countries held in London at the end of August. This Outline Plan was subsequently approved by the Governors of the International Monetary Fund at Rio de Janeiro and formed the basis of the Amendment which has now been finalized in the Executive Board of the Fund.

The subcommittee issued a further report on this subject in December 1967 urging that the Amendment to the Fund's Articles be promptly ratified and pointing out the risks inherent in undue delay "not only for the effectiveness of the new Special Drawing Rights, but also for the stability of the monetary system itself."

I could not improve on the succinct statement contained in the Report of the Joint Economic Committee on the January 1968 Economic Report of the President, which deals with international liquidity in the following terms:

"The free world's liquidity needs require prompt ratification and activation of the IMF's amendments providing the new Special Drawing Rights."

This report continues as follows:

"The free world's liquidity needs cannot be satisfied by continued reliance on gold, accumulations of dollars in foreign hands, and increased sterling liabilities. Nor can we depend on increases in the presently provided drawing rights under the IMF agreements. A sizable part of the apparent growth of foreign exchange reserves in the past 2½ years has been dependent on fortuitous deficits which the countries of the world wish to see terminated at once. Nor is there any prospect that increased availability of gold will do the job. It is, therefore, impera-

tive that the new IMF agreements, providing for special drawing rights, should be ratified at once and activated at the earliest practicable moment."

A minority opinion, while questioning some aspects of the Administration's balance of payments program, supports the majority with respect to the Special Drawing Rights as follows:

"It therefore becomes essential in our view that:

"1. The new special drawing rights under the IMF be activated as soon as possible after ratification of the agreement.

"With gold in official monetary reserves declining and with confidence in the key reserve currencies beginning to wane, an additional source of world liquidity will be needed to accommodate expanding economic growth and, equally important, to head off protectionist and restrictionist measures that could result if countries find themselves short of official reserves."

I want also to indicate how much we in the Administration are indebted to the Advisory Committee on International Monetary Arrangements which has worked closely with us on these matters, under the Chairmanship of former Secretary of the Treasury Douglas Dillon. Secretary Dillon shared the view of the Joint Economic Committee as to the urgent need to strengthen the international monetary system, and so expressed himself as early as June 1965. The Advisory Committee was established on July 16, 1965, and consists of Chairman Dillon and eight distinguished economists and financial leaders.<sup>1</sup>

### III

As I have stated on several occasions, the Special Drawing Rights Plan is not designed to help the United States or any other individual country deal with its balance of payments problem. It does not change in any way the urgency of achieving the correction of the disequilibrium in our balance of payments.

If it were assumed, for example, that Special Drawing Rights were to be created in the amount of \$10 billion in a 5-year period, or at the rate of \$2 billion a year, the United States would receive about \$500 million a year in Special Drawing Rights. This amounts to only one-sixth of the approximately \$3 billion improvement sought in the balance of payments under the January 1 program.

Furthermore, if the United States continued to have a large deficit and if world reserves continued to rise as a result, this would certainly affect the collective judgment as to the global need for reserves in the form of Special Drawing Rights. The provisions of the Amendment leave flexibility for the exercise of collective judgment as to the initial decision to create SDR, by an 85 percent weighted majority. But the Report of the Executive Directors of the Fund makes clear that the situation of the U.S. balance of payments will have an important bearing on that decision. The relevant passage reads as follows:

"Article XXIV, Section 1(b), provides that the first decision to allocate special drawing rights shall be based on the principles that guide all decisions to allocate special drawing rights, and in addition, that it shall take into account certain special considerations. The first of these special considerations is a collective judgment that there is a global need to supplement reserves. The term 'collective judgment' reflects the requirement of an 85 per cent majority of the total voting power for the adoption by the Board of Governors of decisions to allocate special drawing rights. The other special considerations are the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future. While the situation of all members is relevant to a judgment with respect to the attainment of a better balance of payments equilibrium, the judgment to be made at the time will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments."

In short, the Special Drawing Rights Plan does not in any way relieve the United States of the necessity to bring its international payments into far better balance than is the case at the present time or has been for the last several years.

As we are all well aware, the United States has experienced a protracted decline in its gold reserves, from more than \$24 billion to less than \$11 billion. The introduction of the Special Drawing Rights should give us a welcome opportunity to begin rebuilding the level of our reserves without taking reserves away from other countries. We should endeavor to use our allocations of Special

<sup>1</sup> See exhibit 70.



Drawing Rights for the purpose of building up our reserves rather than using them to finance a continuing deficit.

A key to the proper functioning of the international monetary system is to maintain confidence in the dollar. The dollar plays a role, both as a means of holding reserves and as a privately used international medium of exchange, which the world has found extremely useful and efficient, and which would be difficult to replace.

#### IV

One cannot now anticipate the amount of Special Drawing Rights that will be created under the Special Drawing Rights procedure by the exercise of a collective judgment as to global needs for reserves. It is quite clear, however, that Special Drawing Rights will be needed to maintain sufficient growth in global reserves. Over the longer run, if the secular trend of reserves becomes too gradual, or levels off, this can have a pervasive effect in dampening the advance of international trade and investment. Newly created reserves provide a margin by which the countries gaining reserves can do so without simultaneously reducing the reserve position of other countries. The narrower this margin becomes, the fiercer is the competition for reserves among the trading nations. Under such conditions, the countries losing reserves have a stronger tendency to take defensive measures by raising interest rates and applying restraints of various kinds on capital movements or even upon current transactions. Other countries may respond with similar defensive measures, leading to a cumulative escalation of interest rates and restraints and restrictions on international transactions.

Conversely, a wider margin of new reserves entering the monetary system will provide a greater leeway for the countries desiring to expand their reserves—and this includes most countries—and to do so with less impact in the form of corresponding reductions in the reserves of those countries which are the weakest and can least afford it, in the international competitive sense.

It has, of course, been important to establish a careful and cautious procedure for taking decisions to create reserves that would not arouse concern regarding any misuse of the ability to create reserves. The procedures set forth in the Amendment, requiring an 85 percent weighted vote of the members of the IMF, after a period of extensive consultation, should be fully adequate to provide the necessary assurance.

#### V

Attached to this statement as attachment A<sup>1</sup> is an analysis of the main substantive features of the Special Drawing Rights, as set forth in the Amendment.

The Executive Directors of the Fund have proposed a single integrated Amendment to the Articles of Agreement, that is to be accepted or rejected by countries in its entirety.

The Amendment covers modifications in the existing Articles of Agreement, plus additional Articles XXI through XXXII, covering the new Special Drawing Account, together with four new schedules to implement the Special Drawing Rights facility.

There is now in process a vote by mail of the Fund Governors, which is to be completed by May 31. This vote signifies that the Governors of the Fund are prepared to recommend acceptance or ratification of the Amendment by their governments; an affirmative vote has been cast by the United States Governor. The Amendment becomes effective only when 60 percent of the members having 80 percent of the total voting power have accepted it by formally notifying the Fund to that effect. For the United States this requires authorization by the Congress.

The next step is to form a body of participants in the Special Drawing Account by depositing with the Fund a document setting forth that the member has taken all steps necessary to enable it to carry out all of its undertakings as a participant. The body of participants is not in a position to take action until members having at least 75 percent of Fund quotas have deposited such instruments. This provision avoids any possibility of precipitate decisions by a small group of early participants.

Once the body of participants has been formed, the Managing Director of the Fund may then recommend that a given volume of Special Drawing Rights be created for the ensuing 5-year period. Three special considerations must be taken

<sup>1</sup> Omitted from this exhibit; for document reference see Note at end of this exhibit.

into account in this first decision to create SDR. They are: (1) A collective judgment (by the required 85 percent vote) that there is a global need to supplement reserves; (2) the attainment of a better balance of payments equilibrium; and (3) the likelihood of a better working of the adjustment process in the future. All of these considerations are matters of judgment and consultation rather than statistical formulation.

Allocation of SDR will be made to participants in proportion to their quotas in the Fund. Any participant that does not vote in favor of an activation proposal may "opt out" of receiving allocations under a particular decision to create reserves.

The Amendment sets up rules governing the use of Special Drawing Rights in transfers among monetary authorities. The general effect of these rules is to cause Special Drawing Rights to flow from countries that need to spend reserves to countries that are in a strong reserve or balance of payments position, and that are expected to hold the SDR. In fact they are required to receive and hold the SDR up to an amount which, together with their own allocated SDR, would equal three times their cumulative allocations.

One procedure for spending the Special Drawing Rights would lead to a flow of SDR to several designated countries in a strong financial position. By mutual agreement, however, a country needing to use Special Drawing Rights may transfer them to a single recipient country for the purpose of acquiring from that country balances in its own currency. For example, if the other country is agreeable, the United States can pay Special Drawing Rights to that country for the purpose of reducing the dollar holdings of such a country. This is a useful feature, since the way in which a reserve center uses reserves is, in most cases, to purchase and thus reduce some of its own foreign-held liquid liabilities.

There are provisions regarding reconstitution which required extensive negotiation to reach a meeting of minds. The basic requirement is that the average net holdings of Special Drawing Rights should not, for the 5-year period as a whole, fall below 30 percent of the average cumulative amount allocated to the participant: this provision is automatically complied with if a participant has not used more than 70 percent of his allocation. It is not an onerous obligation.

It is also worth noting that the Special Drawing Rights can be used in various transactions with the General Account of the Fund, through which the Fund will henceforth conduct its traditional functions. For example, a participant can repay previous drawings from the Fund partly or wholly with Special Drawing Rights—in some cases by right, and in others by decision of the Fund.

There is a provision permitting the holding of Special Drawing Rights by nonmember countries or by institutions such as the Bank for International Settlements or a regional monetary agency in Latin America. This provision does not permit allocations to nonmembers, but allows the holding of SDR by institutions that perform one or more functions of a central bank. Other international institutions, such as those engaged in development financing, cannot be authorized to be holders of SDR or to engage in SDR transactions.

## VI

The proposed amendment also will change certain features of the existing provisions in the Articles of Agreement of the Fund. There are six main proposals for change, along with subsidiary and consequential alterations. More detailed discussion of these changes is provided in Attachment B.<sup>1</sup>

First, general changes in quotas of the Fund are to require approval by 85 percent of the total voting power, instead of the 80 percent now needed. Departures from the standard arrangement for paying one-quarter of any quota increase in gold are also to be decided by 85 percent. This higher majority was considered desirable by some countries to place the same decisionmaking requirement on increases in liquidity resulting from quota increases as on increases in reserves through creating and allocating SDR.

Second, the voting majority to decide on a uniform proportionate change in par values—that is, on a change in the official price of gold—will be raised to 85 percent under the proposed Amendment. Previously, the majority specified for this decision was a simple majority, provided that each member with 10 percent of the quotas concurred. Also, the voting majority for a decision not to maintain the gold value of the Fund's assets in the event of a decision to change

<sup>1</sup> Omitted from this exhibit; for document reference see Note at end of this exhibit.

the price of gold will in the future be 85 percent, compared to a simple majority in the past. Since these changes make a change in the monetary price of gold even more difficult, we were able to agree to them.

Third, the procedures for making legal interpretations of the provisions of the Articles of Agreement of the Fund are to be altered. As before, the Fund's Executive Directors will have authority to interpret the Articles by a simple majority of the voting power. And, as before, such an interpretation can be appealed to the Board of Governors, whose decision will be final. But in future, there will be a Governors' Committee which will conduct the initial review of an appeal to the Governors. The decision of this Committee will be final, unless it is changed by 85 percent of the total voting power in the full Board of Governors.

The other three changes are largely technical and, to a large degree, represent codifying changes rather than major new departures.

The fourth change involves making the so-called gold tranche positions in the Fund more fully acceptable as reserves by giving them legally automatic status, to succeed the de facto automaticity they have had for many years. At the same time, so-called super gold tranche positions are to be paid a remuneration, in practice an interest return, initially set at 1½ percent.

The fifth change concerns drawings in the credit tranches. In a change that will codify the existing approach of many years' standing, credit tranche drawings will in future legally have to be subject to appropriate policy conditions. This legal change will not, however, require any stiffening of the existing policies of the Fund governing credit tranche drawings.

Sixth and finally, some technical changes are being proposed in the so-called mandatory repurchase obligations in the Fund. These changes will bring these provisions more up to date and enable them to operate more effectively and smoothly.

## VII

There are, it seems to me, several reasons why it is important that the Amendment be ratified at this session of the Congress.

First, delay in ratifying the SDR Amendment would encourage gold speculation. To a very considerable extent, the Special Drawing Right has now become recognized as the preferred alternative to the increase in the gold price.

Second, the United States has always taken the lead in legislative action on quota increases and other legislation affecting the International Monetary Fund. If the United States were to delay action, many other countries might also postpone ratification until the United States has acted. This could mean a delay of many months in setting up the facility for creating Special Drawing Rights. With affirmative action by the Congress at this session, it would be possible for 65 member countries to ratify the Amendment early in 1969. Delayed action on our part could add another 12 months to the interim period before the facility is in effect. During the interim the growth of world reserves could be meager, assuming improvement in the balance of payments of the United Kingdom and the United States. Consequently, delay might bring signs of an uncomfortable international liquidity squeeze, due to the failure of reserves to rise at an adequate rate for several years.

As the Report of the National Advisory Council points out, despite the financial strain of the year 1967 the world's reserves did rise in that year by about \$1.7 billion. This occurred despite a net loss of \$1.6 billion in gold from monetary reserves, but it did mean for the world exclusive of the United States, reserve growth at the rate of only 3 percent, as compared with more than 5 percent per annum during the past 17 years.

We cannot now anticipate what the decision might be as to the amount of Special Drawing Rights that would be created in the first 5 years, but over the longer run, the needs of a rapidly growing international trading and investing world economy should be reflected in decisions to make use of the new facility. It is strongly in the interest of the United States to take prompt action to become a participant in the Special Drawing Account.

## VIII

The amendment once approved must be accepted by the United States before it can enter into effect. Under Section 5 of the Bretton Woods Agreements Act, the President, on behalf of the United States, cannot accept the amendment until he is authorized to do so by Congress. The principal provision of the bill before you is an authorization to the President to accept the Proposed Amendment to



the Fund Articles. The bill also authorizes the President to participate in the Special Drawing Account which will implement the provisions of the Special Drawing Rights portion of the Proposed Amendment.

In order to participate in the Special Drawing Account, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings.

The second major area covered by the proposed legislation comprises the steps that must be taken under our domestic law to fulfill the commitments that flow from participation in the Special Drawing Account.

The primary commitment of the SDR facility is to have authority to accept transfers of SDR from other participants. This undertaking by all participants to provide convertible currency in return for SDR is the primary element which makes Special Drawing Rights a high quality reserve asset. The United States must also be prepared to pay charges on its use of its allocations of SDR and pay the United States share of assessments the Fund may make to meet the administrative expenses of running the Special Drawing Account.

Because it is so essential to the operation of the Facility we must make domestic arrangements that will assure beyond question the ability of the United States to meet its acceptance commitment. In searching for the method to accomplish best this objective, we naturally turned to the techniques used for handling existing reserve assets. Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus, in a sense, our acceptance commitment for gold is the same as for Special Drawing Rights—the payment of dollars against the receipt of an asset. For gold the domestic arrangement that assures that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve banks in return for dollars. When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

A similar procedure is proposed for Special Drawing Rights. The Secretary of the Treasury would be authorized to issue Special Drawing Rights Certificates against an equal amount of SDR holdings to the Federal Reserve banks in return for dollars. Just as in the case when gold is sold, the dollars resulting from the sale of Special Drawing Rights Certificates would be used to redeem the Special Drawing Rights which had previously been issued against the SDR that were sold. Use of a similar technique for Special Drawing Rights as is used for purchases and sales of gold not only provides an assured method of meeting our acceptance commitments but also demonstrates to the world our confidence in Special Drawing Rights as a valuable reserve asset.

Although acceptance commitments must be honored in order to make the SDR Facility work, they are not a burden on the United States. Acceptance of SDR against dollars involves only an exchange of assets. In return for one asset—dollars—we will obtain a highly valuable international reserve asset—Special Drawing Rights—that the United States can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets they will have no effect on budget receipts or expenditures. Similarly, our participation will involve no increase in new obligatory authority.

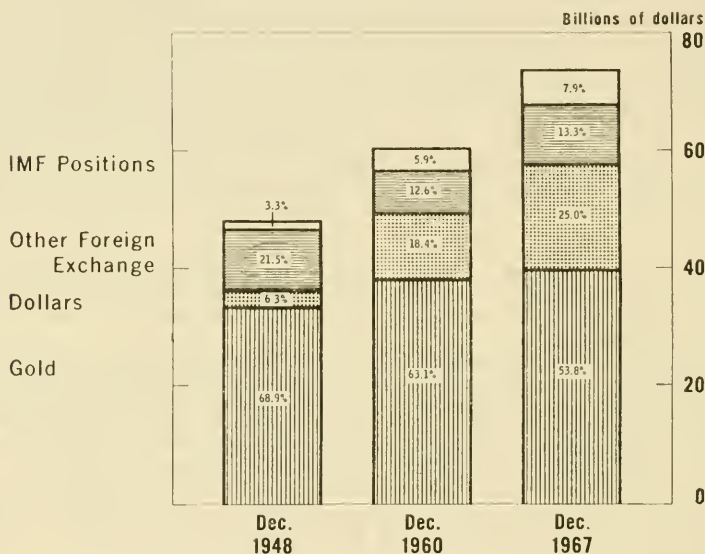
The proposed legislation provides that Special Drawing Rights will be held in the Exchange Stabilization Fund. The ESF would be responsible for providing dollars against Special Drawing Rights presented to the United States, utilizing as needed the Special Drawing Right Certificate procedure I have already described. It would also pay charges and assessments, and receive interest payments on SDR. The technical details of the operation of this method of financing United States participation in the Special Drawing Account are contained in the section-by-section analysis of the proposed legislation, annexed as Attachment C to this statement.

Finally, it is understood that members of the Fund wishing to become participants will have authority to accept the rights and responsibilities that go with SDR allocations up to a minimum amount of 50 percent of their quotas. A number of countries are likely to operate with no ceiling on their ability to participate, by treating Special Drawing Rights in the same way as official

holdings of gold and foreign exchange, which are usually subject to no legal ceiling. In our case, the recommendation is that Congress give authorization to participate up to an amount equal to the United States quota of slightly more than \$5 billion. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience with the Special Drawing Rights. But by giving an authorization that is larger than the minimum suggested by the Fund, the United States would be indicating a more positive attitude towards Special Drawing Rights as a reserve asset than would be the case if we were to adopt the minimum acceptable participation authority.

Note.—Attachments A and B, omitted from this exhibit, are contained in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 2d session on H.R. 16911, May 1, 1968.

## COMPOSITION OF WORLD RESERVES



Economic Graphics Section, Division of Data Processing, Board of Governors of the Federal Reserve System.

April 30, 1968

## ATTACHMENT C

### Explanation of the Legislation Providing for U.S. Participation in the Special Drawing Rights Facility

#### Section 1

This section provides that the Act may be cited as the Special Drawing Rights Act.

#### Section 2

Section 2 authorizes the President to accept the Amendment to the Articles of Agreement of the International Monetary Fund which establishes the Special Drawing Right Facility. The Amendment also covers a number of changes in the existing operations of the Fund.

The Amendment is attached to a resolution of the Board of Governors of the Fund. Article XVII(a) of the Fund Articles requires that this Resolution approving the Amendment be approved by a weighted majority vote of the Fund Governors. Once approved, the Amendment is then submitted to Member Governments for acceptance. Article XVII(a) requires that the Amendment be accepted by three-fifths of the members exercising 80 percent of the total voting power.

Section 5 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286c), requires that approval of Congress must be given before the President may accept

an amendment to the Articles of the Fund. Section 2 of the draft bill would give the necessary congressional authorization to the President and it would also give approval to United States participation in the Special Drawing Account which would be established by the Amendment to implement the Special Drawing Rights Facility.

### *Section 3*

In order to participate in the Special Drawing Account, under Article XXIII, Section 1, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings. (To make the Facility operational, such instruments must be deposited by members with 75 percent of the total Fund quotas.)

The primary commitment is the ability to accept Special Drawing Rights from other participants and pay a convertible currency in return. Participants must have authority to accept Special Drawing Rights in amounts equal to three times their net cumulative allocations (Article XXV, Section 4). The United States must also be prepared to pay charges on its use of its allocations of Special Drawing Rights (Articles XXVI, XXX and XXXI), and pay such assessments as the Fund may make as the United States pro rata share of the administrative expenses of running the Special Drawing Account (Article XXVI, Section 4).

Section 3 authorizes the assumption of these responsibilities. It provides that Special Drawing Rights allocated to, or acquired by, the United States will be deposited in and administered as part of the resources of the Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

Section 3(b) also allocates the proceeds of the use of Special Drawing Rights to the Exchange Stabilization Fund. Accordingly, this section imposes a corresponding responsibility on the Exchange Stabilization Fund to provide dollars against Special Drawing Rights when they are presented to the United States for acceptance. The commitment to provide currency against Special Drawing Rights is the touchstone of what makes Special Drawing Rights a valuable reserve asset. The United States must have domestic procedures that will give unquestioned assurance of our ability to meet this commitment. These procedures are provided for in Section 4 of the draft bill and are described below.

In addition, subsection (b) of Section 3 gives the Exchange Stabilization Fund the responsibility for paying charges on use of United States net cumulative allocations, and assessments pursuant to Article XXVI, Section 4. Article XXVI, Section 3, provides that the rate of charges on Special Drawing Rights will be 1½ percent, although this rate may be changed within the limits of 1 to 2 percent, by simple majority, and can be moved outside these limits if a wider range is decided on for remuneration on super gold tranche positions under Article V, Section 9, as amended by the proposed Amendment. Assessments may be made pro rata in proportion to net cumulative allocations to pay the administrative expenses of the Special Drawing Account. In most cases, charges and assessments are payable in Special Drawing Rights, although in certain circumstances charges in connection with liquidation might have to be paid in currency. Normally, it would be expected that the Exchange Stabilization Fund would reserve some of its holdings of Special Drawing Rights to pay charges and assessments.

Subsection 3(b) provides that payments of interest to the United States on holdings of Special Drawing Rights in excess of United States net cumulative allocations would be deposited in and administered as part of the Exchange Stabilization Fund. The interest rate will be the same as the rate of charges described above. Interest earnings while the United States is holding Special Drawing Rights in excess of net cumulative allocations (which are paid in Special Drawing Rights) will provide a source of funds for paying charges when the United States is using its net cumulative allocations.

### *Section 4*

Section 4 gives the Secretary of the Treasury authority to issue Special Drawing Right certificates to the Federal Reserve Banks in amounts equal to any Special Drawing Rights held by the United States. The Federal Reserve Banks would credit the account of the Exchange Stabilization Fund with a dollar deposit in an amount equal to the value of the Special Drawing Right certificate. Special Drawing Right certificates would be issued and remain outstanding only for the



purposes of financing the acquisition of Special Drawing Rights or financing exchange stabilization operations. Under this provision, dollar balances obtained by the Exchange Stabilization Fund through the issuance of Special Drawing Right certificates to the Federal Reserve Banks could not be used for domestic purposes such as deposits in commercial banks or acquisition in the open market of United States Government obligations.

Section 4(a) provides that the amount of Special Drawing Right certificates issued and outstanding shall at no time exceed the value of the Special Drawing Rights held against the Special Drawing Right certificates. Thus, dollars resulting from the sale of Special Drawing Rights against which a certificate had been issued would be used under Section 4(b) to redeem an equivalent amount of Special Drawing Right certificates.

The above financing method provides absolute assurance that the United States can meet its acceptance commitment.

Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus, in a sense, our acceptance procedures for gold are the same as those for Special Drawing Rights—the payment of dollars against the receipt of an asset. For gold the domestic arrangements that assure that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve Banks in return for dollars (Section 14, Gold Reserve Act, as amended, 31 U.S.C. 405b). When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

Although acceptance commitments must be honored in order to make the Special Drawing Right Facility work, they are not a burden on the United States. Acceptance of Special Drawing Rights against dollars involves an exchange of assets. In return for one asset—dollars—the United States will obtain a highly valuable international reserve asset—Special Drawing Rights—that it can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets, they will have no effect on budget receipts or expenditures. Similarly, United States participation in the Special Drawing Account will involve no increase in new obligational authority.

There follows a series of examples making assumptions about the flow of Special Drawing Rights. The consequences of such flows for the domestic financing procedures provided for in Sections 3 and 4 are then explained.

A. An allocation of 500 million Special Drawing Rights is made to the United States: The 500 million Special Drawing Rights would be entered upon the books of the Exchange Stabilization Fund.

B. The United States has a deficit in its balance of payments and it sells 500 million Special Drawing Rights to another country: The Exchange Stabilization Fund would receive \$500 million or \$500 million equivalent in foreign convertible currency. These funds would be held in the Exchange Stabilization Fund against the liability to repurchase an equal amount of Special Drawing Rights and could be used in exchange stabilization operations. Interest earnings from such operations or from investments would be held for the exclusive purpose of meeting commitments under the Special Drawing Rights Facility, including payments of charges and assessments.

C. The United States having sold all of its holdings of Special Drawing Rights eliminates its deficit and is presented with Special Drawing Rights by other participants: The Exchange Stabilization Fund would usually use the dollars it acquired at the time it originally sold its Special Drawing Rights allocations to purchase the Special Drawing Rights presented. Under this example, and others set forth herein, Special Drawing Right certificates could be issued against Special Drawing Rights on hand at any given time equivalent to those received through allocations only in circumstances where there was a need for resources to purchase Special Drawing Rights or to engage in exchange market operations.

D. Having repurchased an amount equal to our allocations, the United States is now presented with Special Drawing Rights from other participants in amounts in excess of net cumulative allocations: The Exchange Stabilization Fund would accept the Special Drawing Rights and simultaneously issue a Special Drawing Right certificate to a Federal Reserve Bank for a dollar deposit in order to provide dollars to the presenting participants.

E. The United States sells its Special Drawing Rights that are held in excess of our allocations: The Exchange Stabilization Fund would receive dollars from the foreign country and use these dollars to redeem an equal amount of Special Drawing Right certificates held by a Federal Reserve Bank.

#### *Section 5*

Section 5 makes a number of amendments in the Federal Reserve Act to allow the Federal Reserve Banks to hold Special Drawing Right certificates.

Subsection 5(a) amends the third sentence of the second paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 412), to allow the deposit of Special Drawing Right certificates as collateral security for Federal Reserve notes.

The first sentence of the fifth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 415), is further amended by subsection 5(b) to allow Federal Reserve Banks to reduce their liability for outstanding Federal Reserve notes by depositing Special Drawing Right certificates with the Federal Reserve Agent.

Subsection (c) amends the seventh paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 417), by providing that Special Drawing Right certificates, like gold certificates, shall be held in the joint custody of the Federal Reserve Agent and the Federal Reserve Banks.

Subsection (d) amends the fifteenth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 467), by allowing Special Drawing Right certificates, like gold certificates, to be deposited with the Treasury.

#### *Section 6*

Paragraph 3 of Part I of the Executive Directors' Report to the Board of Governors of April 1968, notes (p. 6) two ways in which participants can meet their acceptance obligations: (1) by obtaining authority to accept the rights and responsibilities that go with Special Drawing Rights allocations up to a minimum amount of 50 percent of their quotas, and (2) by treating Special Drawing Rights in the same way as official holdings of gold and foreign exchange, which are usually subject to no legal ceiling, thus obviating any need for further legislative action. Section 6 would authorize United States participation in allocations up to an amount equal to the United States Fund quota of \$5,160 million and the U.S. Governor could not vote for allocations to the United States exceeding this amount. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience with the Special Drawing Rights. But, by giving an authorization that is larger than the minimum suggested by the Fund, the United States would be indicating a more positive attitude towards Special Drawing Rights as a reserve asset than would be the case if the minimum acceptable participation authority were adopted.

#### *Section 7*

Article XXVII(b) provides that no tax of any kind shall be levied on Special Drawing Rights or on operations or transactions in Special Drawing Rights. The privileges and immunities of the Fund were given force and effect in the United States under Section 11 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286h). Section 7 would follow this precedent by giving Article XXVII(b) full force and effect in the United States, its Territories and possessions upon United States participation in the Special Drawing Account.

### **Exhibit 45.—An act to provide for U.S. participation in the facility based on Special Drawing Rights in the IMF**

[Public Law 90-349, 90th Congress, H.R. 16911, June 19, 1968]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act* Special Drawing Rights Act.  
may be cited as the "Special Drawing Rights Act."

SEC. 2. The President is hereby authorized (a) to accept the amendment to the articles of agreement of the International Monetary Fund (hereinafter referred to as the "Fund"), attached

to the April 1968 report by the Executive Directors to the Board of Governors of the Fund, for the purpose of (i) establishing a facility based on Special Drawing Rights in the Fund and (ii) giving effect to certain modifications in the present rules and practices of the Fund, and (b) to participate in the special drawing account established by the amendment.

SEC. 3. (a) Special Drawing Rights allocated to the United States pursuant to article XXIV of the Articles of Agreement of the Fund, and Special Drawing Rights otherwise acquired by the United States, shall be credited to the account of, and administered as part of, the Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

48 Stat. 341.

(b) The proceeds resulting from the use of Special Drawing Rights by the United States, and payments of interest to the United States pursuant to article XXVI, article XXX, and article XXXI of the Articles of Agreement of the Fund, shall be deposited in the Exchange Stabilization Fund. Currency payments by the United States in return for Special Drawing Rights, and payments of charges or assessments pursuant to article XXVI, article XXX and article XXXI of the Articles of Agreement of the Fund, shall be made from the resources of the Exchange Stabilization Fund.

SEC. 4. (a) The Secretary of the Treasury is authorized to issue to the Federal Reserve banks, and such banks shall purchase, Special Drawing Right certificates in such form and in such denominations as he may determine, against any Special Drawing Rights held to the credit of the Exchange Stabilization Fund. Such certificates shall be issued and remain outstanding only for the purpose of financing the acquisition of Special Drawing Rights or for financing exchange stabilization operations. The amount of Special Drawing Right certificates issued and outstanding shall at no time exceed the value of the Special Drawing Rights held against the Special Drawing Rights certificates. The proceeds resulting from the issuance of Special Drawing Right certificates shall be covered into the Exchange Stabilization Fund.

Special Drawing Right certificates, issuance and purpose.

Limitation.

Proceeds.

82 STAT. 188  
82 STAT. 189  
Redemption.

(b) Special Drawing Right certificates owned by the Federal Reserve banks shall be redeemed from the resources of the Exchange Stabilization Fund at such times and in such amounts as the Secretary of the Treasury may determine.

59 Stat. 237.

SEC. 5. (a) The third sentence of the second paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 412), is amended by inserting "or Special Drawing Right certificates," after "gold certificates,"

(b) The first sentence of the fifth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 415), is amended by inserting "Special Drawing Right certificates," after "gold certificates,"

40 Stat. 237.

(c) The seventh paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 417), is amended by (i) inserting "Special Drawing Right certificates," after "gold certificates" in the first sentence; (ii) inserting "Special Drawing Right certificates," after "gold certificates," in the second sentence; and (iii) inserting "and Special Drawing Right certificates" after "gold certificates" in the third sentence.

(d) The fifteenth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 467), is amended by inserting (i) "or of Special Drawing Right certificates" after "gold certificates" in the first sentence, and (ii) by striking the third sentence and inserting in lieu thereof "Deposits so made shall be held subject to the orders of the Board of Governors of the Federal Reserve System and deposits of gold or gold certificates shall be payable in gold certificates, and deposits of Special Drawing Right certificates shall be payable in Special Drawing Right certificates, on the order of the Board of Governors of the Federal Reserve System to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the subtreasury of the United States nearest the

Deposit provisions.  
40 Stat. 238.



place of business of such Federal Reserve bank or such Federal Reserve agent."

SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate Special Drawing Rights under article XXIV, sections 2 and 3, of the Articles of Agreement of the Fund so that net cumulative allocations to the United States exceed an amount equal to the United States quota in the Fund as heretofore authorized under the Bretton Woods Agreements Act of 1945, as amended (31 U.S.C. 822a(c), 22 U.S.C. 286e, 286e-1(a), 286e-1b).

SEC. 7. The provisions of article XXVII(b) of the Articles of Agreement of the Fund shall have full force and effect in the United States and its territories and possessions when the United States becomes a participant in the special drawing account.

59 Stat. 514;  
73 Stat. 80;  
79 Stat. 119.

Approved June 19, 1968.

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**Exhibit 46.—Statement by Secretary Fowler, May 8, 1968, before the House Banking and Currency Committee, on replenishment of the resources of the International Development Association**

I appear before you this morning in support of H.R. 16775, which provides for U.S. participation in the second replenishment of the International Development Association (IDA). This replenishment is of far-reaching importance to the developing countries of the world, and will serve to advance basic U.S. objectives in international economic development in a framework of further multilateral financial cooperation.

This committee has just acted promptly and wisely on a proposal of transcendent importance in shaping the future of the international monetary system—the creation of Special Drawing Rights in the International Monetary Fund. In taking up the bill now before us, the committee addresses itself to a second great world economic problem of this decade and the next: economic development for the poor or less developed countries of the world.

These are not unrelated problems. Adequate reserve growth is a prerequisite to a satisfactory expansion of world trade and investment. The economically advanced countries cannot reach their full economic potential if the developing countries are stagnating. IDA's role is vital in avoiding such stagnation and in creating conditions favorable to economic advancement.

The requirements for development assistance among the poor nations of the world remain immense. In an interdependent world economy, these needs cannot go unmet indefinitely. Official flows of development finance from the economically advanced countries, as measured by the Development Assistance Committee of the Organization for Economic Cooperation and Development amount to roughly \$6½ billion a year. Responsible estimates made in recent years indicate that additional flows of development resources of several billion dollars a year could be promptly and effectively put to work in stimulating development and creating the necessary infrastructure for further growth in the developing countries. At the same time, the capacity of many developing countries to service additional debt is severely limited. It is because of that severe limitation that the Special Report of the National Advisory Council on the replenishment of IDA observes,

"It is also clear that economic development of the developing countries cannot be carried out entirely on the basis of loans on conventional terms without potentially endangering seriously the soundness of the international financial structure. A replenishment of IDA at the level proposed would contribute to meeting the greater demands for funds by eliciting larger contributions from the other donors on terms that fully take into account the debt servicing burden of the developing countries."

We can be certain that, measured against either the readily apparent needs of the developing countries or their capacity to use external resources in conjunction with their own substantial self-help efforts, the proposed IDA replenishment will fill only part of the gap. The proposed amount of the replenishment—\$400 million a year for the next 3 years, of which the U.S. share would be \$160 million a year—represents what it has been possible to achieve international accord on among the economically advanced countries.

I have given my closest attention to each stage of the discussions and negotiations leading to the proposed multilateral accord before you today. As you well know, much of my time and energy as Secretary of the Treasury has been devoted to finding ways of achieving important U.S. international objectives within the constraints imposed by our balance of payments problem. In my judgment, this proposal reconciles the imperative need for continued U.S. support of IDA with our own need to avoid adverse balance of payments consequences from our contributions.

In its original conception and in its subsequent development, IDA has merited and received bipartisan support. Proposed under President Eisenhower and expanded under Presidents Kennedy and Johnson, IDA meets needs that are recognized on both sides of the congressional aisle. I could hardly document the character of this bipartisan support better than by quoting from the Congressional Record of May 13, 1964, when the first replenishment of IDA was being debated. The distinguished Congresswoman from New Jersey, a member of this committee, Mrs. Florence Dwyer, said on that occasion:

"In 1960, as it is today and as it was when the idea was first suggested in 1951, the concept of an agency to supplement the World Bank by lending development funds on the easier credit terms which underdeveloped countries find essential was completely bipartisan. The idea was first proposed 13 years ago by the Republican Chairman of an Advisory Board under a Democratic President. It was given new life 7 years later by a Democratic member of the other body during the Administration of a Republican President. A year later, 1959, the Republican Secretaries of State, Commerce and the Treasury, the Chairman of the Federal Reserve Board and the President of the Export-Import Bank formally approved the project. The World Bank itself then drew up the Articles of Agreement which were submitted by the President to the Congress which, in turn, approved U.S. participation. Congressional approval was urged by a broad range of private American organizations, including the U.S. Chamber of Commerce, the American Farm Bureau Federation, and the AFL-CIO."

President Johnson has given renewed emphasis to this multilateral endeavor, as exemplified in his 1966 message on Foreign Aid:

"I propose that the United States—in ways consistent with its balance-of-payments policy—increase its contributions to multilateral lending institutions, particularly the International Development Association. These increases will be conditional upon appropriate rises in contributions from other members. We are prepared immediately to support negotiations leading to agreements of this nature for submission to the Congress. We urge other advanced nations to join us in supporting this work.

"The United States is a charter member and the largest single contributor to such institutions as the World Bank, the International Development Association, and the Inter-American Development Bank. This record reflects our confidence in the multilateral method of development finance and in the soundness of these institutions themselves. They are expert financiers, and healthy influences on the volume and terms of aid from other donors."

I have attached to my statement several additional expressions of Presidential support, present and past, for IDA.<sup>1</sup>

I do not intend today to dwell on the early operations of IDA or the details of its current operations. No committee of the Congress has had a more intimate association with IDA since its inception than this one. You already know that IDA embodies the concepts of:

- Multilaterally-shared resources with other countries putting up \$3 for every \$2 the U.S. contributes;
- Sound development financing with credits repayable in hard currencies;
- Repayment on liberal amortization terms and low service charge adapted to the debt servicing capabilities of borrowing countries;
- Effective and efficient administration by the skilled management and staff of the World Bank.

You know also that the resources provided by IDA represent a modest but very important part of the total flow of funds to the developing countries. The Special

<sup>1</sup> Omitted from this exhibit. Published as part of hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 2d session on H.R. 16775, May 8, 1968.

Report of the National Advisory Council which is before you brings up to date the record of IDA's lending operations.

#### **IDA's resources**

When IDA was established in 1960, its authorized capital was \$1 billion, of which the economically advanced member countries provided approximately three-quarters. These contributions were payable to IDA on a 5-year schedule running from fiscal year 1961 through fiscal year 1965.

By 1963, it was clear that IDA's resources would have to be replenished because of the rapid pace at which it proved possible to commit the initially available resources. Accordingly, in 1964, the first replenishment of IDA became effective, providing for additional resources of \$750 million, all provided by the economically advanced member countries (the so-called "Part I" countries of IDA). The resources of the first replenishment were scheduled for payment to IDA over the three fiscal years 1966, 1967, and 1968. The last of these three payments was completed recently.

Unlike the situation in 1963-64, when action to replenish IDA was taken well ahead of completion of the current contribution schedule and ahead of full commitment of IDA's available funds for loans, the present situation finds IDA with its available funds almost completely committed and the last payment on contributions already made. Because the first replenishment was timely, there was almost no interruption in the pace of IDA commitments. Now, however, such interruption has already taken place. The NAC Report makes this state of affairs abundantly clear—this valuable affiliate of the World Bank has virtually ceased lending operations because of lack of funds. Without the proposed replenishment, IDA cannot resume its important role. This committee and this Congress now have the opportunity to determine if an international institution created largely on American initiative is to continue, with American participation, as an effective entity.

#### **Amount of the request**

In brief, our request this morning is for new authority to contribute \$160 million to IDA in each of the 3 fiscal years, 1969, 1970, and 1971. This authority, totaling \$480 million over the 3-year period, would represent a 40 percent U.S. share in contributions to IDA by the economically advanced countries totaling \$1.2 billion during that period.

Eighteen other countries would put up the balance of \$720 million, at the rate of \$240 million per year. Under arrangements agreed to by the other countries which I shall describe shortly, U.S. funds would be provided on a basis guaranteeing that, if our balance of payments situation should continue to be a serious problem, our IDA contribution would involve a zero balance of payments cost at least until the beginning of fiscal year 1972 and possibly longer.

#### **Other countries provide a larger share**

The figures I have just mentioned on relative contributions by the United States and the other developed countries clearly reveal one of the main arguments for continued U.S. participation in IDA. For every \$2 the United States puts up through this multilateral channel, the other advanced countries put up \$3. It is clearly to our advantage to have others bear the major burden of development financing, while we assume an appropriate but minority share.

I would also like to emphasize that our present 40 percent share reflects the fact that we have been able to reduce our share of IDA contribution since IDA was established. This has resulted in seemingly modest but, to me, clearly significant dollar savings in relation to the new overall IDA replenishment figure. Under the present request, the United States would contribute \$37 million less than would be the case if our 1960 share of IDA contributions were maintained. Together with a similar calculation of savings in connection with the first replenishment of IDA, our total contributions will be nearly \$50 million less than they would have been had we not negotiated vigorously to achieve a reduced share. These efforts were carried out, I might add, with considerable encouragement from members of this committee expressed during earlier hearings on IDA legislative requests.

#### **Consistency with expenditure restraints**

In this period of rigorous scrutiny of all of our future spending plans, I know you will want to assure yourselves on the size of the request. I have already



touched on the pressing need for development finance and on the fact that IDA, even at the level of this request, can provide but a part of what is needed—although a vital part. If the United States were to fail to contribute its 40 percent share of the proposed increase in IDA resources, the entire proposal, involving contributions by 18 other developed countries who are putting up more than we are, would collapse, and the vital work of this institution would come to a complete halt. It is not in our interest to let this happen.

Several further points should be noted in this regard. The budget, as presented in January provides for \$240 million for the first year of the U.S. contribution to this replenishment. This figure was entered in the budget at a time when negotiations with the other countries involved had not yet been completed and it was not possible to determine the final level of the package that might be agreed upon. When the final \$1.2 billion, 3-year package was agreed upon, *ad referendum*, among the representatives of the Part I countries, we were able to determine that our 40 percent share would require contributions of only \$160 million each year. We therefore will need only two-thirds of the amount shown in the January budget.

Furthermore, the balance of payments safeguards which I have referred to briefly and will discuss in greater detail shortly, are of such nature that the budgetary effect of our contributions to this replenishment will be sharply reduced below their nominal amount in the next 3 fiscal years should our balance of payments situation require. Our contribution installments of \$160 million each will be made in the form of letters of credit. These will be drawn upon only as needed for disbursements. Even if we did not take advantage of the balance of payments safeguards, we would not expect the actual cash drawing under our first installment to exceed \$100 million in fiscal year 1969. But if we do take advantage of the balance of payments safeguard arrangements, we could expect the actual cash drawing to be less than half of this amount. Such a development would mean a very substantial reduction, not only below the level we might have anticipated with the new funds, but also substantially below the level of usage of the funds we have been providing to IDA.

#### **Our balance of payments is fully protected**

Let me turn now to another aspect of the IDA replenishment which I believe is of great concern to members of this committee and indeed to the Congress at large—the effect on the U.S. balance of payments. From the very earliest discussions of IDA replenishment, I made clear, both publicly and privately, that an arrangement taking into account the situation of donor countries with balance of payments deficits was a prerequisite to final agreement on the part of the United States. The proposal now before you reflects the substantial acceptance of this viewpoint by the other contributing countries.

In its operations to date, IDA has had only minor effect on the U.S. balance of payments deficit. Procurement in the United States financed by IDA has offset a significant part of the cash flow of U.S. resources to IDA. Although in each of the past 3 fiscal years the United States provided \$104 million to IDA, this contribution was in the form of noninterest bearing letters of credit rather than cash. These letters of credit are not drawn on until much later than the time they are delivered, and then are drawn only at the rate required for disbursement. Only these cash drawings affect the balance of payments. The average cash effect of IDA operations so far has been about \$30 million per year. Nevertheless, I have felt it desirable to eliminate even this much balance of payments drain from IDA operations with its new money.

Accordingly, we have obtained the agreement of all other participating countries that they will permit IDA to operate in a fashion that will give us—if we require it because of a serious balance of payments problem—complete balance of payments protection during the fiscal years in which contribution payments are being made, *i.e.*, at least through the end of fiscal 1971. This agreement is formally embodied in the Resolutions which appear as an Annex to the NAC Report.

Our contributions to IDA have an adverse effect on our balance of payments only when they exceed the amount of procurement obtained in the United States under IDA financing. The essence of the new arrangements is that the U.S. contribution would be drawn on only in the amount of procurement identified as taking place in the United States. The balance between this amount and what we would have put up as our normal share would be deferred for a fixed period of 3 years. Thus as long as we so elect, no drawings of free foreign exchange

from the United States would take place prior to July 1, 1971, and some of the U.S. contribution could be deferred until a period well beyond that date.

To make up for the temporary deferment of availability of some U.S. resources in the early years, other developing countries have agreed to accelerate the availability of their contributions for use by IDA. No change would take place in IDA's present method of operations with respect to borrowing countries (in particular, international competitive bidding would continue to be the rule).

The Management of IDA has given assurances that the entire arrangement is compatible with continued effective operations by the institution. The United States would have recourse to the arrangement only as long as its balance of payments situation required. A later acceleration in the rate of use of the U.S. contribution would have to be anticipated, as a corollary of the deferment we had received. The technical description of the workings of these arrangements is detailed in the NAC Report. The point I wish to emphasize is that the balance of payments cost of the second replenishment of IDA will be zero while we are in serious overall balance of payments difficulties.

### **The replenishment cannot proceed without the United States**

Under the Resolutions governing the replenishment, which are reproduced in Annex A of the NAC Report, the second replenishment cannot become effective until at least 12 contributing members whose contributions aggregate not less than \$950 million shall have notified IDA that they will make their contributions. Because of the size of the U.S. contribution, the \$950 million "trigger" amount cannot be reached without our participation. Our own action undoubtedly will stimulate early action on the part of a number of other governments. The Executive Directors of IDA have recommended that all governments act in time to permit the Resolutions to come into effect on or before June 30, 1968. By acting promptly to meet that schedule, we can reassert the constructive leadership regarding IDA that has characterized our earlier participation in the institution.

### **Nature of legislation required**

H.R. 16775, the Bill submitted by the Chairman of the Banking and Currency Committee and the Chairman of this Subcommittee, would provide the necessary authority for moving forward with our participation in the second replenishment. It would, first, authorize me, as U.S. Governor of IDA, to vote in favor of the Resolutions now pending before the Board of Governors on the replenishment, and to notify IDA formally, in accordance with paragraph (h) of the principal Resolution, that the United States will make the contribution authorized for it in accordance with the terms of that Resolution. To implement the agreement we would thus be entering into with the Association, H.R. 16775 authorizes the appropriation, without fiscal year limitation, of our full \$480 million contribution, that amount to remain available until expended. These funds would in fact be made available to IDA in three installments, payable on November 8 of 1968, 1969, and 1970. Upon formal notification to IDA of our acceptance of the second replenishment pursuant to this legislation and the requisite action by other countries, the United States would have a binding international obligation with IDA.

To be in a position to meet this obligation, as soon as authorizing legislation is completed we would seek an appropriation of \$160 million for the first installment payment that would fall due on November 8, 1968. We would seek appropriations in the same amount in each of the fiscal years 1970 and 1971.

Installment payments would be made in the form of noninterest bearing letters of credit, which would be drawn on by IDA at a later date as its cash needs for disbursements arise. No budgetary expenditure is recorded until such drawings are made under the letters of credit. This is the procedure generally used in our participation in international financial institutions.

### **Conclusion**

New lending activity of the International Development Association is at a virtual standstill. Practically all of its funds have been committed. We are asking authority today to participate in a replenishment of its resources. As was intended when IDA was first set up, participation by the United States will be a minority participation—the other advanced countries put up 60 percent while we put up 40 percent. Although we have the smaller share, the arrangement cannot go forward at all without us. And it clearly should go forward.

IDA is an effective and efficient multilateral instrument for sound development financing. It has been the major worldwide source of multilaterally supplied development funds on terms that take into account the debt service problem of the developing countries. The needs of these countries for external finance are massive and are not being adequately met.

The fact that the United States was the leader in establishing IDA and arranging the last replenishment of its resources should alone be reason for our continued support. I recognize, however, that two problems may induce some hesitancy in the Congress about giving that support. In my judgment, these problems have been fully taken into account:

—The balance of payments impact of IDA in the past has been moderate. Nevertheless under the new proposal, we have achieved an agreement with other donors that if the U.S. balance of payments requires such protection, there will be absolutely no balance of payments impact from IDA operations with the new funds until at least the beginning of fiscal year 1972.

—The proposal is consistent with our financial capabilities. It is one-third less than the amount originally budgeted for; it represents a smaller U.S. share of total IDA contributions by the developed countries than in the past; and it is likely in the near term to involve a lower annual level of cash expenditures than the level of previously authorized funds, due to the operation of the balance of payments safeguards.

During the entire postwar period, the United States has followed the path of international financial cooperation. IDA was born of this policy and the proposed replenishment both reflects and extends this policy. Through IDA multilateral responsibilities are met in responsible multilateral ways.

The Congress can give a new impetus to further international cooperation for development by adopting this legislation. I urge you to act favorably on H.R. 16775 and report it promptly to the full House.

#### **Exhibit 47.—Remarks by Secretary Fowler, May 24, 1968, at the 15th Annual Monetary Conference of the American Bankers Association, Puerto Rico**

Once again I am grateful for the opportunity of addressing this international monetary conference of distinguished financial leaders, public and private, from many important nations. This annual meeting offers an unparalleled opportunity to forward the common objective of the countries represented—a viable international financial system, nourishing economic growth, expanding trade and investment, and promoting security and development—an objective that cannot be achieved by these same nations working in isolation.

This is the fourth of these conferences I have been privileged to attend and it will be my last as Secretary of the Treasury. May I thank you for your warm initial reception at Princeton in 1965, the day following my appointment, and the opportunities at Granada, Spain, Pebble Beach, California, and now Puerto Rico, to talk with you about our common problems.

#### **I. MULTILATERAL RESPONSIBILITY, THE NEW ESSENTIAL OF FOREIGN AND FINANCIAL POLICY**

Each of the discussions I have had with you has had a basic underlying theme. It is a theme born of a conviction I held upon assuming my responsibilities in 1965. It has been reinforced by the increasing emphasis of events in the intervening three years.

That conviction is that American foreign policy must increasingly embody and express the principle that the advanced countries must share the responsibility on a multilateral free world scale for an improved trade and payments system, mutual security arrangements that are soundly and fairly financed, and an expanding system of development aid and finance.

In short, my message, as I saw it coming into this assignment and as I leave it, is the same—we must practice multilateralism, we must insist on it, and we must make it work.

The reason is clear and inescapable—we live in an interdependent world. Its future will depend upon the ability of likeminded leaders of both governments and private institutions to forego narrow nationalism and seek diligently an improved framework of international economic and financial cooperation.



In Spain 2 years ago we took a tour of the horizon. We assessed the opportunities for multilateralism in the field of world trade, world liquidity, the strengthening of the adjustment process in our balance of payments, the improvement of capital markets, development assistance, and assuring fair treatment for the multinational corporation.

Last year at Pebble Beach we singled out a particular topic for detailed examination—the need for multilateral national political decisions to bring about a shared responsibility for a more effective world monetary system which could assure continued progress, security and growth for a greater society of nations.

This sharing of responsibility in international financial affairs cannot continue to be the exclusive or especial concern of finance ministers, central bankers and private citizens involved in finance. It now requires the intensive involvement of chiefs of state, legislative assemblies, foreign ministers, defense ministers, trade ministers, business leaders, labor leaders and, indeed, citizens who, whether they know it or not, are now involved in a process of financial adjustment—a process which must be worked out among countries if the relative achievements of the next 20 years in the field of security, growth and development are to match those since World War II.

This is a necessary consequence of the changed situation of the United States and the dollar. Certain facts must be understood and it is my business and your business to make them understood in a wider circle rather than just consider them in talk among international bankers.

In the 17 years from 1941 through 1957, the United States had a cumulative balance of payments deficit of less than \$10 billion, or an annual average of just about \$600 million. We ran a cumulative surplus on trade and services of \$85 billion, or about \$5 billion per year, a cumulative surplus on capital account of \$17 billion, or \$1 billion per year, and a cumulative deficit on military and Government account of \$112 billion, or \$6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of \$42 billion net.

During that period, we gained gold reserves of \$800 million and financed our deficit completely—and more—by increasing our dollar liabilities to official and private holders.

The basic point is that the United States, throughout this period, was in fundamental surplus but, through its deliberate policy of massive untied grant and loan assistance, incurred more or less consistent liquidity deficits. With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a unilateral adjustment process that benefited the world and, in so doing, helped both the world and itself.

It is no exaggeration to say that we picked up most of the checks—balance of payments checks—for insuring free world security; we permitted disadvantage to our trade, we encouraged our tourists to go abroad and make substantial purchases and we strove mightily to increase our export of capital through foreign public and private investment. All of these policies were rational and in the interest of world trade, security and economic growth.

But in the 10 years 1958–67, the United States ran a cumulative deficit of \$27 billion—an annual average of \$2.7 billion—more than four times the average of the earlier period. Our Government and military account deficit was reduced but remained large—\$55 billion in 10 years. It was, of course, strongly affected by Vietnam after mid-1965.

Our capital account in the 1958–67 period showed no real improvement as compared with the earlier period. The annual average, in fact, showed a smaller surplus than in 1941–57. Capital outflows on direct investment, in the form of bank loans and in portfolio, rose sharply—enough so that the steadily rising income just about kept it in balance, but only after the outflow had been somewhat controlled and only after special transactions, including some debt prepayments to the United States on Government account.

But the big change came in the trade and service account. Here our cumulative surplus was less than \$19 billion, or under \$2 billion a year. Our exports grew but, particularly in later years, imports grew faster, and we incurred a rapidly increasing deficit on tourist account.

This cumulative U.S. balance of payments deficit of the last 10 years—\$27 billion—had its counterpart in the continued enjoyment of a rather consistent pattern of surpluses in most of the other developed countries. This resulted

both in a further decline in U.S. reserves and a continuing buildup of reserves of the surplus countries and dollars in private hands abroad.

The President's New Year's Day Message to the nation on balance of payments marked the end of that era of deficits. He proclaimed to the nation and the world that the time for decisive action had come and that the need to bring our payments into equilibrium was a national and international responsibility of the highest priority. In so doing, the President set a standard and a policy from which no future President in the decades ahead will find it practical to depart without abandoning the entire fabric of international economic and financial cooperation which we have so painfully sought to construct since World War II. There was no acceptable alternative to strong action then, which must be followed through now, and which must be maintained zealously in the years to come.

Here is the setting in which the moment of truth arrived :

- the U.S. dollar is the principal reserve currency and the most-used transaction currency in the international monetary system

- the last 10 years of chronic, sizable deficits in the U.S. balance of payments had diminished the ratio of our liquid assets to short term claims against them

- the primary surplus countries had failed to play their proper role in the balance of payments adjustment process

- it was clear that there were limits to the willingness of private and official holders abroad to accumulate the currency of a country in chronic deficit

- the United States has a far-flung involvement in security and development finance and is a natural and proper source of export capital.

In this setting, the devaluation of the British pound with resulting heavy pressures on the gold and foreign exchange markets, coincided with the substantial increase in 1967 in the U.S. balance of payments deficit from the \$1.3 billion levels of 1965 and 1966. These events impelled and required the United States to initiate a strong, determined program to restore balance of payments equilibrium and to maintain it—preferably through a multilateral adjustment process.

All that remained open for debate was the choice of means to be employed to achieve this objective. The President's New Year's Day Program sought to satisfy four essential conditions :

- Sustaining the growth, strength and prosperity of our own economy ;

- Allowing us to continue to meet our international responsibilities in the defense of freedom, in promoting trade and encouraging economic growth in the developing countries ;

- Engaging the cooperation of other free nations whose stake in a sound international monetary system is no less compelling than our own, and

- Recognizing the special obligation of those nations with balance of payments surpluses to bring their payments into equilibrium.

The January 1 program was designed to be a balanced program—balanced in three important aspects. In it, there is balance between measures to restrain the domestic economy and reverse the tide of increasing inflation and direct measures to improve particular segments of our international payments. There is balance between selective measures on capital and current account. And, finally, there is balance in the impact of the selective measures on the rest of the world.

In essence, having undertaken with unprecedented generosity a unilateral readjustment process in the years in which the United States was in fundamental surplus, the United States has now undertaken the initiative for a multilateral adjustment process to reverse its position as a deficit country.

The stakes involved in making this necessary adjustment a multilateral exercise rather than a unilateral one are well understood by those in the financial world, public or private. I am not so sure that this understanding reaches to those in positions of responsibility in the other sectors of government—in the foreign offices, the defense ministries, the trade ministries, the tourism offices, and other areas where decision and action will ultimately determine the success or failure of the adjustment process.

Therefore, I will repeat what I said at Pebble Beach a year ago—a statement which intervening events should make better understood now than it was at the time :

“I find it also necessary to emphasize that this cooperation is not a matter of helping the United States deal with its problem, but a matter of enabling the United States to deal with its problem without ; undermining the international

monetary system, subjecting that system, by unilateral action, to radical and undesirable change, or withdrawing from commitments involving the security and development of others."

There is much progress to report in this area of multi-national responsibility:

The creation of a means for providing an adequate and reliable supplement to gold and reserve currencies to meet the global need for increasing monetary reserves in the form of a Special Drawing Rights facility, administered by the International Monetary Fund, seems a likely reality rather than a far off dream. These Special Drawing Rights, deliberately created by multilateral decision, backed by the currencies of the participating countries, and shared by all who participate according to Fund quotas, will be an important symbol of multilateral sharing of responsibility for this key aspect of a viable international monetary system.

Giant steps toward this long sought objective were taken in the meetings of the Group of Ten at London last July, at Stockholm last March, and at the International Monetary Fund Annual Meeting last September in Rio de Janeiro, scene of the passage of the Resolution of the Board of Governors and the submission of a formal Report by the Executive Directors of the Fund to its Governors of a proposed amendment to the Articles of Agreement creating the Special Drawing Rights facility.

There have been outstanding performances by the major financial countries in containing the devaluation of the British pound and coping with the disruption of financial and foreign exchange markets that followed.

The Washington communique of March 17 of the Central Bank Governors of the active gold pool countries, announcing their decision to separate the private gold markets from what might be termed the monetary gold market, was a historic statement and reflects a major decision. The cooperation of most of the other free world countries, expressed in their willingness to subscribe to the policies stated in the Washington communique, is also most reassuring.

At Stockholm, the Group of Ten Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold. Their communique also said: "They intend to strengthen the close cooperation between governments as well as central banks to stabilize world monetary conditions." This latter statement was agreed unanimously and there was only one reservation to the former statement.

## II. MULTILATERALISM IN DEVELOPMENT FINANCE

Today, I should like to single out another specific area of challenge for making multilateralism work—economic development for the poor or less developed nations of the world.

As the United States Governor of the World Bank, the International Development Association, the Inter-American Development Bank and the Asian Development Bank, I have come to believe that the care, supervision and development of these key instruments of multilateralism are vital responsibilities for all of us.

I am fortified in that belief by the fact that a world religious leader, Pope Paul, has spoken out strongly on our responsibilities in this area, and that men like John McCloy, Eugene Black, George Woods, Felipe Herrera, and Takeshi Watanabe have become true believers along with Presidents Eisenhower, Kennedy, and Johnson; that a distinguished Secretary of Defense, whose prime concern for 7 years has been our national security, believes that the leadership of this type of institution is a most important outlet for his energies and talents.

But three recent events clinched my choice of subject.

The first is the fact that the new and relatively young Prime Minister of our neighbor, Canada, chose last week in the western province of Alberta to state a conviction. It was that the overwhelming threat to Canada will not come from foreign investment, ideologies, or weapons, but "from the two-thirds of the peoples of the world who are steadily falling farther and farther behind in their search for a decent standard of living."

The second reason was that George Champion chose the annual meeting of the Texas bankers 10 days ago as the occasion for delivering a truly outstanding address on this subject. In his remarks Mr. Champion made this assessment in these terms:



"But, in my judgment, cooperation in promoting free societies and rising standards of living in the developing nations is essential. Frankly, I see no alternative.

"As our newly appointed Ambassador to the United Nations, George Ball, has stressed, the achievement of a stable world order depends primarily on a handful of industrialized Western nations which 'command the lion's share of world power, possess the most advanced technology, and enjoy in common a humane tradition.'

"Twenty years ago, these nations, acting in unison, halted the westward sweep of Communist aggression.

"Today, acting in unison, they could mount a coordinated attack on world poverty that could ultimately lift a hundred nations to economic respectability."

My third reason for choosing this special subject is that during this year the Congress of the United States and the governing bodies of the 17 other industrialized nations who are members of the International Development Association, the soft loan affiliate of the World Bank, will determine whether this promising approach to multilateral development finance will be replenished on an expanded scale or leave this vital field to relatively uncoordinated national approaches.

A generation has now passed since the world first turned its attention to the problems of development finance, to meet the challenge of promoting economic growth in the less developed lands. During that time we have witnessed some notable successes and some saddening failures. We have also learned a great deal about the complex and difficult problems of financing economic development, and how to attack those problems.

We have learned that multilateral approach to development finance, making full use of the global network of international financial institutions and of the regional banks, is clearly advantageous, not only to the developing countries, but also to the United States and the other contributing countries. Let me review some of these advantages.

#### **Advantages of the multilateral approach**

*Attracting large-scale resources.*—The multilateral institutions, which represent the combined efforts of many countries, can attract and command a wider range of financial resources than individual countries working by themselves. The global international financial institutions and the regional banks can not only call upon contributions from member countries, but, in most cases, are in a position to tap private resources through the sale of securities in world capital markets.

*Burden-sharing.*—The global international financial institutions and regional banks provide the best vehicles available for bringing about a more equitable sharing of the burden of providing development assistance.

Moreover, these institutions have provided a way to shift burden-sharing arrangements over time to accord with the changes in the international financial situation. This is of particular importance if we are to find the ways and means of meeting the requirements for development finance among the poor nations of the world—requirements which remain immense. The United States, which has for so long carried so large a share of the total burden, cannot by itself, or to the extent to which it has in past years, meet the growing need. Other nations must join in meeting these expanded requirements in volume and in proportions of aid that more closely reflect the realities of their growing economic and financial strength.

The U.S. share of bilateral free world aid is about 56 percent of the total. But the United States, 2 years ago, subscribed to only 20 percent of the share capital of the Asian Development Bank, and we are now seeking legislative approval for only a 40 percent share of an expanded capitalization for the next round of contributions to the International Development Association, the World Bank's concessionary finance affiliate. Our initial contribution to IDA in 1960 represented a 43 percent share of the capitalization provided by the developed countries. In the World Bank, which relies heavily on capital borrowed in private markets, we have been able to encourage a marked shift from extreme reliance on U.S. private markets to much greater reliance on the capital markets of Europe. This is in keeping with the growth in European financial strength.

In addition to questions about amounts of financing, the international financial institutions have proved useful in improving the quality of financing, as it relates to the need for concessionary repayment terms, by getting other nations to bear

a more equitable share of the burden of this type of lending. IDA—to take a most important example—provides hard currency repayable loans at very long maturities, with a small service charge in lieu of interest. Thus, all contributions to IDA from the many capital exporting countries are pooled, and relented on identical terms adapted to the debt-servicing capabilities of borrowing countries. This situation contrasts sharply with bilateral financing arrangements, in which there are wide differences in the terms of financing provided by the various capital exporting nations, with certain nations insisting on excessively strict repayment terms.

*Comparison of effort.*—The multilateral financial institutions can provide a useful non-political mechanism for comparison of effort—for comparing the development progress of the different developing nations and the soundness of their development programs and also for comparing the development financing policies and programs of the various capital exporting countries. In the light of such comparison, those developing nations in which planning efforts and development efforts are inadequate can be encouraged to improve their performance, and those creditor countries in which policies for providing development finance show up badly in terms of magnitude, quality, or terms, can be encouraged to raise their standards. This, of course, complements the valuable work of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

*Political objectivity.*—Loans provided by the international financial institutions and regional banks are made on the basis of economic criteria. Basically they are not politically oriented—and are not so considered by the recipients. Loans by the international and regional banks tend to be allocated on the basis of the borrowing nation's need and capacity to employ funds usefully, rather than on the basis of political ties, or on an attempt to influence particular governments or persons, or, to use the vernacular, the principle of "who likes whom?"

This political objectivity is a great advantage. It permits the multilateral banks to advise capital recipient nations on matters of political sensitivity, in a manner which would be difficult, if not impossible, for a country providing bilateral development finance. It is easier for developing nations to accept advice and conditions of reform and self-help if that advice and those conditions come from an international institution or regional bank in which the developing nation is a member and has a voice and a vote.

The World Bank and related institutions, as well as the regional banks, have been effective in requiring self-help measures on the part of the borrowing nations and have not only brought about financial and economic reforms within them, but have moved to help bring reform in such fields as education and health.

Moreover, the international and regional financial institutions, with this advantage of being nonpolitical, can sometimes act as arbitrator in difficult situations. Perhaps a case in point is the Indus Water settlement, where the World Bank was in a unique position to obtain agreement of both India and Pakistan to terms for a mutually beneficial solution to a problem which had defied settlement for a long time.

*Efficiency of operations.*—The multilateral institutions, which devote full time to the tasks of development finance, bring to these problems a greater concentration of professional expertise than is generally available from single nations—donors or recipients. In effect, they can take advantage of economies of scale in the development financing business. They can provide development capital efficiently, and economically. Just as an international or regional group with broad geographic membership can call on a wide range of contributors for financing, so can it call on, and provide, technicians with a wide range of skills and specialties which no single country is likely to have available.

*A forum for discussion.*—Still another advantage is that a multilateral institution can provide a framework within which donor countries and recipient countries, each with a share in financial participation, can work together in a cooperative attack on the problems of poverty and need. There is much gained from sharing experience. Developing nations, by participating in these arrangements, can learn from one another. All can improve their own knowledge of development problems and their own performance.

*Providing leadership.*—Perhaps the most important contribution of the international financial institutions and regional banks is that these institutions can

provide a critically needed leadership. This means leadership in marshaling capital for development finance, in determining needs and priorities, in selecting the best approaches to the development task, and in encouraging both developing nations and capital exporting nations to pursue sound and helpful policies. This kind of objective leadership, which cannot and should not be undertaken by any single nation, either donor or recipient, is essential. In my view, it is the fundamental advantage of the multilateral approach—making full use of the international financial institutions in attacking the problems of development finance.

During the 1960's many important steps have been taken to shift the emphasis in development finance away from bilateral channels toward increased reliance on the international financial institutions and regional banks. IDA, the concessional financing arm of the World Bank, was started in 1960, was given a substantial increase in its resources in 1964, and, under the proposal now being considered, would be given a further increase, to allow it a substantially higher level of loan activity.

The Inter-American Development Bank, with membership comprising the United States and 20 other nations in the Western Hemisphere, was inaugurated in 1960 and has received increased resources since that time, with growing financial participation by non-member countries.

The African Development Bank was opened for business in 1966, limiting its equity membership to African states, but with the expectation that the exporting nations might participate, through special funds and other arrangements.

The Asian Development Bank opened its doors in 1966, with 19 regional and 12 nonregional members, including most of the European countries. Last December, Switzerland became the 12th nonregional member. This marked the first time that Switzerland had joined any such financial institution.

In addition to the establishment and expansion of international and regional banks, reliance on the leadership of the multilateral financial institutions increased in recent years with the establishment of consortia and consultative groups. In these, a number of capital exporting countries, each of which is participating in financing development in a particular country—say India or Colombia—meet periodically to discuss past results and future prospects for development finance for that country. This reliance on the international and regional banks will, and should continue to grow.

This is a desirable trend. We must, I repeat, build on the present system, correct any faults, and fashion the system in a way best designed to meet present and future needs. The word "build" is not used in the sense of creating new institutions. It would be pointless and self-defeating to set up new institutions with functions which would overlap those of existing bodies, and which would serve more to bewilder than to contribute. I agree with a leader in this field who said that there should be an antiproliferation pledge of new international organizations; that we should reserve the creation of new entities for functions that clearly have no home among the many rooms already offered by the international family.

But we can build in the sense of adapting present policies of our existing institutions. Our past experience has shown that multilateralism works; we must now make it work more effectively. How can we do that?

*First, we should strengthen the position of leadership by the international financial institutions and the regional banks.*

We must do all we can to strengthen these organizations in their position of leadership. To have a multilateral organization dominated by one or two nations is to make a sham of multilateralism. The United States, and every country, must restrain any impulse to try to take the lead and play too prominent a role. A success in a multilateral financing operation is a success for the whole group; a failure is a failure of the whole group.

The implications of this are very important for the United States.

On the one hand it means that the United States must recognize that it cannot and should not exercise more than its fair share of control of the policies of these institutions, determine in each and every case to whom each loan will or will not go, and so on.

Of course, we have an important voice in these decisions. As the largest single contributing country in most of the international financial institutions, we can exert considerable influence. I think the record thus far will indicate clearly that the activities of these institutions have been compatible with U.S. policies



and interest. Their operations and policies have in the main broadly coincided with our own views. I am confident that in practice this will continue, but we should not forget that we cannot control these organizations, and we should not expect that each turn and twist of a multilaterally-financed institution can or should be dictated solely by the United States.

There is another side to this coin. As a strong but minority partner, we should not try to assume unlimited responsibilities in the supply of development finance which so seriously falls short of the expanding need. These increased responsibilities should be increasingly shared by our partners in Western Europe and Japan whose capacity to participate in meeting the enlarged demand has grown so remarkably over the past two decades. With growing responsibilities more equitably shared by them through the channels and under the leadership of the international institutions, an important attack can be launched on the great world economic problem of this decade and the next—economic development of the poor, the less developed, countries of the world, for the benefit of all nations.

It is not a question of whether the United States is in a position in which it can meet all shortfalls of development finance targets, as a residual supplier and lender of last resort. This is a tired question, one which was more alive when other nations now strong were financially weak. Enlarged contributions by other capital exporting nations are not, and should not be considered as, help for the United States on the grounds that they were reducing the shortfall which our nation has to meet.

It is the work of the international financial institutions, with all capital exporting nations acting collectively—not the United States acting unilaterally or disproportionately—which must assure that the immense requirements of the developing nations are met.

*Second, we should urge the international and regional institutions to strengthen further their management and leadership of the consortia and consultative groups.*

Under the guidance of the World Bank or other multilateral institutions, individual consultative groups and consortia have been set up for about a dozen countries. Each group meets periodically to assess each developing country's economic performance and to evaluate its need for development assistance, usually on the basis of some target drawn up by the developing country and reviewed by the multilateral institution.

We have only started to come to grips with the problem that in some cases these multilateral efforts have been too heavily focused on the gross amount of development finance to be provided, while paying insufficient attention to the form of financing provided and the terms on which it is provided. The result has been not only an unequal distribution of the burden among donors, but also—at least until recently—an increasing debt service burden on the borrowers, resulting from the very short terms and very high interest rates on credit offered by some of the donor members of these groups.

The debt burdens which some of the developing countries will face in the years ahead as a result of accepting too much short-term high interest debt can cause serious problems for both the debtors and the creditors. In my view the dangers in this situation are substantial. It might be better to encourage the international institutions to reexamine the presumptions on which participation in consortia and consultative groups have thus far been based.

*Third, we must press more vigorously through the international institutions and otherwise, for more equitable sharing of responsibility.*

Progress has been made in recent years toward a fairer sharing of the burden of providing development financing, but more needs to be done. We have no wish to cut back on what the United States is doing, but there is still a great need for an increased flow of resources from others, and a critical need for better terms.

I have touched on this question earlier. I will add here only the observations that every important capital exporting nation must be persuaded that the requirements for development finance are growing; that providing development loans on commercial terms is self-defeating, and that cutbacks in development finance programs represent an economy which the world cannot afford.

It is becoming increasingly clear that we can no longer make such comparisons simply by relating the size of a country's development and aid contribution to the size of its gross national product. The form in which a donor provides aid, the terms of its aid, and its international liquidity position must be taken into

account. In a broader sense, account should also be taken of the contribution each country is making toward other objectives for the common good—most particularly for the military security of the free world.

*Fourth, we need to press for policies and attitudes to give greater weight to balance of payments considerations in multilateral development activities.*

If substantial amounts of funds, particularly those which will be paid over a number of years, are to be channeled through multilateral institutions, ways and means must be found to cause the real resources needed by the developing nations to flow in such a way that they will contribute to, rather than upset, the process of adjusting international payments imbalance. We delude ourselves if we think that any substantial commitment, particularly forward commitment of funds, will be made by responsible national financial authorities without adequate protection for their balance of payments contingencies. There is no magic inoculation known, either in medical or economic science, which can provide immunity to balance of payments problems for developed countries other than the United States.

At present, the United States, which is by far the world's largest provider of multilateral aid, has by far the world's largest balance of payments deficit. We need to make sure that our participation in these multilateral organizations is carried out in ways compatible with our balance of payments policies, while consistent with the needs of the multilateral institutions.

The future ability of the multilateral development finance institutions to mobilize large and increasing resources will depend to an important degree on their ability to meet this challenge. There are a variety of ways in which this problem can be approached.

Additional steps need to be taken to improve the access of the development finance institutions to wider and more diversified world capital markets. For our part, the United States has for a number of years pressed for the creation of new and more highly developed capital markets in other industrial nations. Some have taken actions to facilitate such a development—with national and international benefits.

From the point of view of the international finance institutions alone, much remains to be done. Perhaps this is an area for multilateral action under the leadership of the multilateral institutions themselves. It would be fanciful to expect full results quickly, but the lag in results, compared to the need so far, is regrettable. We have had to afford a substantial degree of access by these institutions to our own capital markets, despite our balance of payments difficulties; but whenever such access was necessary, it was also necessary, in view of our present deficit, for us to mitigate the impact of the event on our own balance of payments. If we are to make a better adjustment of international payments imbalances, we must act upon the responsibility, recognized by all of us in the Organization for Economic Cooperation and Development—and not fully met by all surplus countries—of affording greater financial access to all of our capital markets by the development finance institutions.

But it is not a matter of access alone. To the extent that private capital markets—particularly in surplus countries—are not yet able to provide an adequate volume of resources, does not the member government have a responsibility to the institution and to the adjustment process for timely reinvestment of its international receipts?

We must take all feasible steps to assure that, when resources are being contributed to the multilateral institutions, contributing countries which are in balance of payments difficulties may make their contributions in a way which safeguards their efforts to achieve balance of payments equilibrium.

The proposed contribution to IDA contains such safeguards, and the principle must be maintained in other contributions to other multilateral institutions.

—We must seek an increasing recognition of the need for a clear differentiation, in the provision of development finance, in the obligations of capital exporting countries in balance of payments difficulty and those of capital exporting countries which are in balance of payments surplus. Countries in serious balance of payments difficulty may be expected to provide their contributions in the form of goods and services produced in their own country. Countries in balance of payments surplus should make their contributions in the form of cash financing or untied aid. I should note that if countries now in surplus do not provide their aid on an untied basis—in form and fact—while they are in surplus, it will be

much more difficult for nations in deficit, such as the United States, to justify providing their aid in untied form when their balance of payments deficits are eliminated.

—As a general proposition we should seek to ensure that development finance more actively contributes to the international payments adjustment process. Development financing should be provided in a form which tends to mitigate, rather than to exacerbate, the present disequilibrium in international payments.

*Finally, we should increase the share of financing provided through multilateral lending agencies.*

If some of these changes can be introduced a continuation of the shift in emphasis from bilateral to multilateral channels for aid and development finance would be in order. This, of course, is not a decision for the United States alone, but we should, in my view, let it be known that we are prepared to join with the other contributing countries in expanding the use of the multilateral channels for development finance.

This is not a move to be made by one or a few countries but by all contributing countries and should depend upon the effectiveness of the particular institution. However, this does not mean that we should expect to shift altogether out of bilateral aid and development finance arrangements in favor of the multilateral approach. The bilateral channels must continue to play an important role. We would be deluding ourselves, and doing a disservice to those who have responsibility for carrying out the foreign policy of governments, not to recognize it.

I would, at this point, like to say a word about Vietnam. President Johnson has made clear to the world our fervent hope that peace there will be restored. At this moment we cannot predict the outcome of negotiations. But it is not too early to begin to consider the possibility of peace and to plan. Clearly, the problems of restoring economic stability and promoting growth in those war-torn areas in the stresses of the post-Vietnam period will require a multilateral approach. We should begin to examine the problems and plan such an approach.

### III. SOME PRESSING, PENDING, UNFINISHED BUSINESS AT HOME

During the month of June the Government of the United States will be called upon to take decisive action on some pending legislation which is of the greatest importance to the objective of making multilateralism work in the field of international finance.

The Senate will be called upon to vote on the legislation authorizing the approval of the proposed amendment of the Articles of Agreement of the International Monetary Fund establishing the Special Drawing Rights facility and providing for U.S. participation in the operations of that facility. This legislation has already passed the House of Representatives by a vote of 226 to 16.

I appreciate the interest, participation, and support of the American Bankers Association in the long and laborious processes of consideration, negotiation, and legislative action which have brought us so close to the end of the long road we have traveled toward this objective.

Likewise, it is anticipated that in the month of June, Congress will be called upon to approve participation by the United States in the second replenishment of funds for the International Development Association. This second replenishment cannot become effective until at least twelve contributing members—whose aggregate contribution is not less than \$950 million (out of the \$1.2 billion scheduled over the next 3 years)—shall have notified the organization that they will make their contributions. Because of the size of the U.S. contribution, the \$950 million "trigger" amount cannot be reached without our participation. Our own action undoubtedly will stimulate early action on the part of a number of other governments.

The Executive Directors of IDA have recommended that all governments act in time to permit the Resolutions to come into effect on or before June 30, 1968. By acting promptly to meet that schedule, we can reassert the constructive leadership that has characterized our earlier participation within the International Development Association.

Strong bipartisan backing characterized the U.S. initiative to create the International Development Association under the administration of President Eisenhower. Up to now it has continued under President Kennedy and President Johnson. I hope it will result in a timely approval by the Congress of this



measure, so vital to keeping multilateralism at work in the field of development finance.

Finally, in the first week in June, the Congress will vote up or down legislation providing for a tax increase and a reduction in Government expenses. This all important measure is designed to restore a responsible national fiscal and financial policy which is vital to the United States and the entire free world.

This audience knows that failure to take affirmative action on this fiscal program would risk incalculable damage to our own and the world's economy and financial system. It would

—expose our economy to continuing and intolerable inflationary pressures,

—lead to additional fear and distress in our financial markets and a further upward spiral in interest rates already near the highest levels in modern history,

—hamper our efforts to bring our balance of payments into equilibrium through the restoration of a healthy trade surplus, risking a full-scale international financial crisis,

—seriously undermine the basic faith held at home and abroad in the ability of the United States to conduct its financial affairs responsibly—a faith that is and has been fundamental to the strength of the dollar.

Since last August, I have warned of each of these risks of fiscal failure in every forum open to me—from cabinet room to congressional committee—from London to Rio to Stockholm. But today, unlike last August, I am no longer speaking of risks alone. For, to a degree, each of the damaging results I have cited is already in evidence. We are no longer faced with dangerous future contingencies but with a current movement toward damaging inflation, financial deterioration and a loss of confidence.

This is why I consider it absolutely essential that proper fiscal action be taken now. We can not afford further delay. And the nation can not afford the failure in representative government which would result should the Congress refuse to perform its function in meeting the necessities of the people rather than satisfying wishful thinking. It is your responsibility and mine to make sure they understand the necessities. Since the surcharge was proposed last August it has become increasingly clear that a responsible fiscal policy, in the environment then evident and now experienced, calls for decisive action to eliminate the twin deficits in our Federal budget and in our international balance of payments and for early enactment of the President's tax increase proposal as essential to the achievement of this objective.

The past 10 months have amply demonstrated that the best chance of obtaining these results in this Congress is to conjoin the tax increase with a substantive spending reduction. The legislative package pending before the Congress does just that.

There have been and continue to be differences of opinion over whether the expenditure reductions should be \$4 billion or \$6 billion—whether the deficit of over \$20 billion should be reduced to \$18 billion or \$20 billion. I hold strongly to the view that a difference of opinion over the consequences of postponing, or cancelling, or maintaining expenditures in fiscal 1969 in the amount of \$2 billion must not be allowed to stand between the nation and the early re-establishment of a responsible fiscal policy so necessary and so long overdue.

Speaking to the United States Chamber of Commerce, prior to the decision of the House and Senate, I said:

"Given the Government's serious financial situation, now recognized on all sides, I am confident that the men of wisdom, experience and patriotism who are involved will not permit disagreements over details or procedures, or marginal differences as to the degree of expenditure reduction required, to prevent decisive action to reduce our twin deficits to manageable proportions.

"\* \* \* In this process, the individual Congressman or Senator will not get just what he would prefer for his constituents or for the nation. Nor will the President, given the special constitutional power of the Congress over the purse. Neither will you or I. But, acting together, we can do what needs to be done—take care of our essential needs at home and abroad in a manner that will keep our economy stable and the dollar strong."

But, this is not the end of the story.

It is the duty of the Secretary of the Treasury to speak plainly on these matters and I have done so in the past as I do now. But it is also his duty to keep trying, to retain hope, and to have confidence in the ultimate capacity of

representative government to do what is plainly right, even in an election year.

My role in the torturous journey that the tax bill has been forced to follow has been described by one of my colleagues as follows:

"At times he has been a tax Candide, seeing progress in this procedural move or that statement by a legislator when all else saw only set-back. At times he has sorrowfully been a tax Cassandra, as crises recurred in the international markets and gold filled the headlines. And at many another time he has been the ambulance surgeon on the emergency call or even a Dr. Christiaan Barnard—always able to detect a pulse or heartbeat when all others had put away their stethoscopes."

May I take one final role—that of a fiscal Paul Revere, riding past our noble banking institutions, shouting a new call to arms:

"The date is early June."

You are the Minute Men who should have the ear of your representatives on financial matters. In this hour of national fiscal responsibility, I ask for your help.

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**Exhibit 48.—Letter from Secretary Fowler to Chairman Mills, House Ways and Means Committee, June 6, 1968**

HON. WILBUR D. MILLS,  
*Chairman, House Ways and Means Committee,*  
*House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: The public hearings on trade matters which have been launched by the Committee on Ways and Means will have a most significant bearing on the course of the United States policy, not only in the trade area but in the field of international finance as well.

We must not swerve from the path of progressive liberalization in international trade that this country commenced in the 1930's and has followed for over two decades since World War II. To change our course now could mean the start of a movement back to restrictionism in international financial policy. The international monetary system would soon feel the effects of such a return. Continued liberalization of trade is the only correct course for sound economic growth in an interdependent world. It is essential if, in the United States, we are to build a healthier trade surplus: the surplus we must have to achieve a sustainable balance of payments equilibrium.

Approval of President Johnson's proposals extending the trade agreement authority under the Trade Expansion Act of 1968 (H.R. 17551) is important not only to provide the necessary legislative authority in this area but also as an expression of congressional support for the post-war trade policy from which the whole world has prospered. This policy has fostered a growth in free world exports from less than \$50 billion in 1946 to more than \$190 billion in 1967. It was accompanied by the highest growth rates the industrial world ever experienced; it created new hope for lesser developed areas.

On the other hand, enactment of proposals for the unilateral imposition of import quotas would not only be a severe setback to the kind of trade policy that strengthens the United States and the free world economy, but quotas would seriously aggravate our balance of payments program. Let me indicate briefly why, in my judgment, resort to restrictive trade measures such as unilaterally imposed quotas would be a setback to the effort to improve our position on the international trade account.

A country with exports of about \$32 billion, which accounts for at least one of every six dollars shipped anywhere in the world, is uniquely vulnerable to the adverse effects of a quota war. And a quota war is precisely what wide use of import quotas would create. To instigate such a war would be folly, since the United States would be bound to end up as a loser. The use of import quotas may, at times, as allowed under GATT, make temporary sense for some trade deficit countries; it has no place in the policy of a major trading country such as ours. What is more, if sustainable equilibrium in our international accounts is to be achieved, in great part through an improved trade account, a restrictive trading policy would destroy the climate which is a precondition to such growth.

More detailed views of mine on the adverse effects on the United States stemming from the imposition of import quotas are contained in the attached letter (Annex 1) which I sent to Senator Russell B. Long, Chairman of the Senate Finance Committee, on October 18, 1967.

A substantial trade surplus is the keystone of a sound international financial position for the United States and the dollar. Our substantial trade surplus during the postwar period has been the major sustaining element in our balance of payments picture. It has provided the financial means for carrying out our international responsibilities—the defense of freedom, the promotion of world trade, and the encouragement of economic growth in the developing countries supported by a convertible dollar of constant gold value.

During the last six months there was a sharp decline in our trade surplus—from an annual rate of \$4.2 billion in the first three quarters of last year, to an annual rate of \$400 million in the first quarter of this year. The rise in imports that caused this decline was due in part to special circumstances. It was due mainly, however, to the absence of adequate fiscal restraint in the form of a tax increase and expenditure control and the conjunction of a highly stimulative deficit in our Federal budget with a period of rapidly expanding economic activity, which has characterized the last ten months. Had the pace of the U.S. economy permitted us to maintain a trade surplus of the proportions that characterized every quarter in the last 3 years, up until the fourth quarter of last year, our 1968 first quarter balance of payments would have been in surplus. This situation is one of the most important reasons for prompt approval of the Conference Report now pending before both Houses of the Congress.

These first quarter balance of trade results point to the importance of an extensive follow-through on those features of the President's balance of payments action program which affect, directly or indirectly, the restoration of a healthy trade surplus. In addition to the tax-expenditure bill which has been so high on this Committee's agenda, these actions include:

- restoration of wage-price stability,
- avoidance of work stoppages or threat of stoppages that encourage imports and reduce exports,
- a new consciousness and energy on the part of management and labor to produce and sell for export,
- enactment of the new Export Expansion Credit proposals pending before the Congress, and
- a fresh look at certain features of the GATT, with the object of removing disadvantages to our trade.

The positive action program designed to bring our balance of payments close to equilibrium is described in some detail in the Treasury Department's recent publication, "Maintaining the Strength of the United States Dollar in a Strong Free World Economy." I have referred to this report frequently before your Committee. The subject matter of Chapter IV, "An Intensified Effort to Achieve and Maintain Healthy U.S. Trade Surplus," is particularly pertinent to the hearings now being held by your Committee. Let me touch on some of these points.

Sound fiscal and monetary management of the U.S. economy, designed to keep it competitive and stable, is crucially important to the U.S. trade balance. Excessive increases in income—especially when we have full employment—will be quickly translated into higher prices, and into capacity bottlenecks, with a resulting surge in imports and slowdown in exports. The prompt enactment of the President's tax increase program—coupled with the expenditure reduction program—is the single most important and indispensable step this nation can take now to improve our balance of payments and protect the dollar and the international monetary system. It also lays the groundwork for future improvement.

Business and labor share an important responsibility to improve our competitive position and build on our trade surplus. As we pointed out in the Treasury report, two important areas here are:

- keeping wage demands and price decisions consistent with national productivity performance; and
- avoiding work stoppages, or the threat of work stoppages, in industries vulnerable to import or export competition at a time when our balance of payments position is under pressure.

For the long term, we need to develop a systematic program to expand our exports. The energy and imagination which labor and management can bring to this task are badly needed. In the field of export financing and export promotion we have made a start. The Department of Commerce and the Export-Import Bank have certain legislative requests before the Congress. H.R. 16162—the Export Expansion Facility Bill—would help develop new markets for U.S.



goods and services. There is also a 5-year Commerce Department program for increasing its export promotion activities. Appropriations have been requested for this. In addition, the Export-Import Bank has liberalized its rediscount facility and the Export Expansion Facility will permit increased flexibility in the exporter credit program and in the guarantee and insurance programs of the Export-Import Bank and the Foreign Credit Insurance Association.

The success of our own export expansion program depends to a great degree not only on a competitively strong U.S. economy, but on continuing efforts to keep world markets open. Directly related to these efforts is the maintenance of a liberal trading policy by the United States. In harmony with our efforts to expand world trade in general and U.S. exports in particular, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) have launched a work program which recognizes the importance of moving forward in liberalizing international trading arrangements.

A GATT group is now completing an inventory of nontariff barriers to trade. The United States has long felt that these impediments to our exports pose a continued threat to the growth of world trade. We must seek not only to reduce and remove these nontariff barriers but to remain alert to oppose the establishment of new ones.

I should mention one area of particular concern. The rules of the GATT permit the rebate of certain indirect taxes when goods are exported, as well as the imposition of these taxes on imported goods. But comparable action is not permitted with respect to direct taxes. The United States does not question a country's choice of a tax system but we are concerned that the present GATT rules create an unwarranted advantage to those countries which, unlike the United States, utilize extensive indirect taxation. These rules reflect the underlying assumption that indirect taxes are wholly passed on to consumers, while direct taxes are wholly absorbed by producers.

When the GATT rules were drawn up—more than two decades ago—the question of border tax adjustments did not appear to be a matter of major concern. Levels of indirect taxation were much lower; the overly simple and sweeping assumptions about tax shifting were generally considered acceptable.

Times have changed. Many economists and businessmen now question the validity of these underlying assumptions. There has been a general growth in the use of indirect taxes, with a series of upward changes in border tax adjustments. Further, a variety of new changes in indirect tax systems are contemplated by various European countries. Accordingly, very careful attention must now be given to rules and practices which are prejudicial to our trading interests.

In this context, the U.S. Government has been consulting in the OECD on the question of border tax adjustments and has recently concluded a discussion on the trade effects of the German shift to a "value added" system of taxation. In addition, the United States requested the Contracting Parties to examine the provisions of the GATT which deal with this complex issue of border tax adjustments. A GATT Working Party is now actively involved in an exploration of this complex issue. We believe there is a growing awareness abroad of our serious concern that the present GATT rules work to the disadvantage of our trade. However, this is a contentious issue and obtaining agreement on changes in the rules will be difficult.

Before concluding, I should mention two important laws affecting our imports which the Treasury Department is responsible for administering. The first of these is the antidumping law, the second is the countervailing duty law.

"Dumping" occurs typically when a foreign firm sells its products at a lower price in the United States than in the home market. If domestic producers are injured as a result, special antidumping duties, measured by the price differential, are assessed in addition to normal customs duties, upon the imported goods involved. The Treasury Department is responsible, under the antidumping law, for determining whether there is a price differential. Since 1954, the Tariff Commission has been responsible for determining whether there is injury to domestic producers.

Attached as Annex 2 is a statistical record of the dumping cases processed from 1955 through 1967. During this period, there were 12 findings of dumping, resulting in the assessing of dumping duties. In addition, there were 89 cases which resulted in price revision or a termination of sales. This latter category is significant. In these cases, when it appeared from Treasury's investigation that sales might be taking place at less than fair value, the exporter either terminated

the sales completely or revised his prices. Ordinarily, this would mean there was no object in sending the case to the Tariff Commission for determination as to injury; the dumping had been stopped and the objectives of the antidumping law had been achieved. Accordingly, such cases have ordinarily been closed out forthwith to the satisfaction of the U.S. industry complainants. However, despite the price revision, a number of cases have been sent to the Tariff Commission for an injury determination.

The U.S. countervailing duty law requires the Secretary of the Treasury to impose countervailing duties in cases where dutiable goods imported into the United States benefit from a subsidy. The amount of the countervailing duty is equivalent to the amount of the subsidy. The countervailing duty is in addition to the normal customs duties assessed upon importation.

At the present time there are 13 countervailing duty orders outstanding. Three of these were issued in the past month. Annex 2 also contains a statistical statement of countervailing duty cases processed from 1934 to 1968, together with a listing of the orders currently outstanding.

Further, in terms of my Department's responsibility for the administration of customs laws, we fully support the provision in the Bill for elimination of the America Selling Price System. Over the years ASP has proven to be administratively burdensome for the Bureau of Customs. Its removal would facilitate the administration of the customs laws.

Finally, I must emphasize the fact that our leadership in the movement toward freer world trade and payments has created new opportunities for us. Although there have been problems at times, our strength has been our ability to press forward and out of the wealth of an expanding U.S. economy, bring forth the greatest strides in world trade and development in recorded history. The successful conclusion of the Kennedy Round negotiations is a good example of how a dynamic and forward-looking policy brings benefits to all the world—to us and our trading partners alike. Continued cooperation can only mean progress in dealing with our problems. A retreat to protectionism by the United States would be certain to bring forth the same response abroad, and the abrupt termination of the benefits we all have enjoyed. I believe there is sufficient realization on the part of our trading partners of the problems created by some of their policies and practices to warrant the conclusion that they are prepared to work with us on these problems to arrive at mutually acceptable solutions. Fundamental to this attitude is their desire to be confident that the U.S. Government will continue and further its efforts to create an international environment conducive to the expansion of world trade.

I want to be equally emphatic in underscoring our intent to act forcefully to see to it that the obstacles which now work against our trade are eliminated. President Johnson, in his message to the Congress on the Trade Expansion Act of 1968, underlined that "other nations must join with us to put an end to non-tariff barriers."

Trade is a two-way street.

Sincerely yours,

HENRY H. FOWLER.

#### ANNEX 1

*October 18, 1967.*

HON. RUSSELL B. LONG,  
*Chairman Senate Finance Committee,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: I am writing to you to express my judgment that the recently proposed import quota bills, if enacted, would worsen our balance-of-payments problem, already aggravated by the Vietnam conflict.

During the postwar period, our substantial trade surplus has been the major sustaining element in our balance-of-payments picture. This trade surplus has provided the financial means for carrying on necessary military, economic, and diplomatic activities throughout the world with a convertible dollar of constant gold value. Because of this trade surplus, we have not had to resort to the restrictions on personal freedom of travel abroad or on direct investment abroad which so many countries have used. I shudder to contemplate what would have happened to our balance-of-payments position and our gold reserves in the absence of this strong plus factor in our payments situation.

A country with a large trade surplus is uniquely vulnerable to the adverse effects of a quota war and that is what wide use of import quotas would create.

To incite such a war would be a fool's game since the United States would be bound to end up as a loser. The broad use of import quotas may, at times, make temporary sense for inward-looking trade deficit countries; but it has no place in the policy of a major trade surplus country such as ours.

Import quotas would probably reverse the continued recovery of our trade balance upon which the solution to our balance-of-payments problem so heavily depends. They would do this by causing a loss of U.S. exports that would almost certainly exceed any reduction in U.S. imports that they would produce.

There are three reasons for anticipating a substantial adverse effect on our exports as a result of widespread imposition of import quotas. These may be referred to as the "feedback" effect, the "retaliation" effect and the "competitive loss" effect. Let me describe each of these, in turn.

*Feedback effect.*—When we import, we put dollars in the hands of foreign countries which are likely to use the bulk of them directly or indirectly either to purchase U.S. goods, U.S. services, or U.S. long-term investments.

Experience suggests that for each \$1 billion reduction in our merchandise imports, we will lose somewhat over half a billion dollars of exports. Other items in our balance-of-payments accounts will also change; but I am speaking of the observable statistical relationship between our merchandise imports and exports over a period of years.

If foreigners earn less from us because of quota barriers which we erect against their goods, we can surely anticipate that their purchases of our goods will decline even in the absence of retaliatory action against our goods. But there will certainly be such action—and this leads me to the second adverse effect that the proposed quotas would have on our exports.

*Retaliation effect.*—President Kennedy in his Balance of Payments Message to the House of Representatives on February 6, 1961, warned:

"A return to protectionism is not a solution. Such a course would provoke retaliation; and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effects to the dollar."

President Johnson in his Balance of Payments Report to the Congress on February 10, 1965, emphasized our obligation to avoid "beggar thy neighbor" restrictions on trade.

If we start down the quota path, there will be retaliatory action abroad and our trade surplus position will suffer.

The six Common Market countries have already given a veiled warning that they would retaliate. I do not think they are bluffing. The Commission which is the executive arm of the European Community is reported to have already undertaken a study of possible retaliatory action. A Commission recommendation along this line to the Community's Council of Ministers would certainly receive very careful consideration.

Other countries would follow suit. I understand the Australian Government has estimated that the proposed quotas would apply to 60 percent of Australia's exports to us. I hardly think that country, or other countries in comparable situations, would remain passive in the face of U.S. quota limitations affecting so large a portion of exports to us.

Let me add that foreign countries have a variety of devices with which they could retaliate against the proposed U.S. quotas. These include not only counter-quotas but also administrative devices such as licensing requirements which are not so obvious but which could be quite effective in reducing their imports from the U.S. There is no doubt in my mind that these instruments would be brought into play within a short time after action by the U.S. along the lines of the proposed legislation.

In addition, then, to the adverse "feedback" effect on our exports resulting from a quota-induced reduction in our imports, there would be a decline in our exports due to foreign retaliation. Loss of U.S. exports due to these two reasons alone might well exceed any reduction in our imports resulting from the proposed quotas. But the above losses would be supplemented due to a third adverse effect resulting from imposition of import quotas.

*Competitive loss effect.* Imposition of the proposed quotas, by curtailing competition from foreigners, would encourage higher domestic prices for various materials and components which enter our export products. As a result, our exports would tend to be less competitive in foreign markets, and we could expect foreigners to buy less of them for this reason.

In August I testified before the House Ways and Means Committee on the President's fiscal program. In that testimony I emphasized the importance of keeping our exports competitive over the longer run and pointed out that the



requested tax increase would contribute to this end. Maintaining an open economy—that is, one free from widespread quotas and other barriers to trade—also contributes to this end. We cannot hope to produce in a highly protected domestic market and sell successfully in highly competitive international markets.

I have described above three adverse effects that the proposed import quotas would have on U.S. exports. I cannot predict exactly what their combined effect would mean in terms of dollar loss of U.S. exports for each dollar reduction in U.S. imports brought about by the proposed quotas. But my judgment is that the ratio would be considerably greater than one for one—that is, more than one dollar's loss of exports for every dollar reduction of imports. In summary, the proposed quotas would hurt our trade balance and, therefore, our balance of payments.

The approach under our balance-of-payments program has been in exactly the opposite direction—namely, to achieve an expansion of exports that would outstrip the rise in our imports. In short, we are striving for a balance-of-payments solution in the context of a healthy, expanding international economy such as has been developing in the last decade or two. The proposed legislation, by contrast, would foster a retreat to protected markets which could easily become cumulative. Protectionism is like inflation. There is never enough of it for the firm whose costs are seriously out of line.

Any adverse effects of increased imports on particular firms or individuals are not remedied from the national point of view by transferring the disruption to firms and workers engaged in exporting. Adverse effects, in any event, are likely to be temporary in a period of healthy domestic growth and near capacity utilization of domestic resources. We are not facing a period of mass unemployment and low rates of plant capacity utilization such as featured the 1930's. The Administration's policy has been directed more and more firmly towards the maintenance of a full employment, noninflationary economy in which international trade in both directions plays an important role.

Enactment of the proposed bills would bring to an end an era of progressive liberalization in international trade—an era which has witnessed the highest growth rate that the industrialized area of the world has ever experienced.

The United States has played a leading role in this liberalization process. In addition to completing successfully the Kennedy Round of trade negotiations, the United States and other free world countries have recently agreed on a facility for supplementing existing international reserve assets, as needed, in order that a shortage of such reserves will not impede the continued growth of world trade.

Our best interests at home and abroad would suffer if the United States were suddenly to forsake its role in the expanding free world economy for the illusory benefits of an import quota system.

Sincerely yours,

HENRY H. FOWLER.

## ANNEX 2

### *Record of antidumping and countervailing duty cases*

#### Dumping cases: <sup>1</sup>

Cases processed Jan. 1, 1955 through Dec. 31, 1967.....	371
No price discrimination.....	230
Price revision or termination of sales.....	89
No injury.....	40
Findings of dumping.....	12

#### Countervailing duty cases:

Cases processed May 1, 1934 to May 31, 1968.....	191
Countervailing duty orders.....	30
Orders currently in effect (8 countries).....	13

Country	Product and year
Australia.....	sugar content of certain articles—1923; butter—1928
Canada.....	cheese—1940 and 1953
Cuba.....	cordage—1954
Denmark.....	butter—1935
France.....	canned tomato paste—1968
Great Britain.....	sprits—1914; sugar—1938
Ireland.....	sprits—1935
Italy.....	transmission towers—1967; canned tomatoes and canned tomato concentrate—1968; wire mesh—1968

<sup>1</sup> From Jan. 1, 1934 (at which time detailed records on the Antidumping Act were begun to be kept) until Dec. 31, 1967, there were 496 cases processed. A finding of dumping was made in 19 of these cases. Records of cases prior to 1955, when the responsibility for making injury determinations was first undertaken by the U.S. Tariff Commission, are not complete as to the reasons for the determinations.

**Exhibit 49.—Statement by Under Secretary Barr, February 28, 1968, before the International Finance Subcommittee of the House Banking and Currency Committee, on H.R. 15364, a bill to increase the Ordinary Capital resources of the Inter-American Development Bank**

It is a pleasure to appear before you today in support of H.R. 15364 which authorizes participation by the United States in an expansion of the callable Ordinary Capital resources of the Inter-American Development Bank. In the words of President Johnson, the legislation would "enlarge the borrowing and lending capacity of this vital Alliance for Progress institution without requiring expenditure of United States Government funds."

Growth of the Bank after its establishment in 1959 necessitated an increase in its callable Ordinary Capital in 1964. Further satisfactory growth since then and the assumption by the Bank of new responsibilities now make it desirable and timely to act again to assure the adequacy of the Bank's resources. Approval of the pending legislation would mark another significant step forward in strengthening the Bank as the principal hard-loan financing institution of the Alliance for Progress. The Bank and its role in hemispheric economic development have enjoyed the firm support of three Presidents and of five Congresses, from the 86th to the present 90th Congress.

The Board of Governors of the Inter-American Development Bank at their Annual Meeting in April 1967, unanimously agreed to recommend to the member governments that appropriate steps be taken to increase the resources of the Bank in two ways: first, through a 3-year increase starting in 1967 in the Fund for Special Operations, the Bank's concessional lending window, and second, through an increase in the callable Ordinary Capital of the Bank for hard lending for action this year. The first proposal involves an actual expenditure of Government funds. The second proposal does not.

Last year, this committee recommended U.S. participation in the first proposal, for the increase of the Fund for Special Operations. The full Congress approved your recommendation, and the increase is now being implemented. Today's request deals exclusively with the second of the recommendations, concerning Ordinary Capital.

The National Advisory Council on International Monetary and Financial Policies has submitted a Special Report on this proposal to the President and to the Congress. This Special Report describes the background and the details of the proposal and strongly recommends prompt enactment of the necessary legislation. I have asked that a copy of the Council's Special Report be made available to each member of this Committee.

The proposal by the Governors on the Bank's Ordinary Capital involves (a) an increase in authorized capital stock of the Bank by \$1 billion in order to permit (b) subscriptions by member governments—on a callable basis requiring no cash payment—of their proportionate share of such increase.

Callable subscriptions enable the Bank to raise Ordinary Capital resources by borrowing in the various capital markets. These subscriptions represent contingent liabilities, which may only be called when required to meet the obligation of the Bank on such borrowings.

The proportionate share of the United States in the proposed callable capital increase would be \$411,760,000. Under the terms of the proposal, this amount would be subscribed in two equal portions of \$205,880,000 each, the first by the end of this year and the second in 1970. Although appropriations will be sought in the relevant years, the subscriptions as such involve no budgetary expenditure. It is not foreseen that the shares, once subscribed, will be called for cash payment by the United States. By the act of January 22, 1964 (Public Law 88-259) the Congress approved U.S. participation of the same amount in a previous capital increase of identical purpose and size.

Since it began its lending operations in 1960, the Bank has made a major contribution to Latin American development. The Bank has made 448 loans totaling \$2,391 million from all of its sources of funds (including 155 loans from Ordinary Capital amounting to \$901 million). In doing so, it has helped to mobilize another \$3 billion of additional development funds from local and other sources.

Let me recall briefly, Mr. Chairman, the structure of the Inter-American Development Bank and the extent of U.S. participation in the Ordinary Capital of this institution. The Bank was established for the purpose of contributing to

"the acceleration of the process of economic development of the member countries." The United States, all of the Latin American countries (except Cuba) and Trinidad and Tobago are members. The Bank's senior policy body is its Board of Governors, on which Secretary of the Treasury Henry H. Fowler serves as U.S. Governor. The United States appoints its own Executive Director (and Alternate Executive Director) to the seven-man Board of Executive Directors. The Executive Directors oversee the day-to-day operations of the Management of the Bank. Voting in the Boards of Governors and Executive Directors is on the basis of weighted votes with the United States having 42 percent of total votes.

The Inter-American Development Bank was established with two separate lending "windows." The Ordinary Capital window provides for loans on the more conventional banking terms reflecting its primary reliance on private capital markets for funds. The Fund for Special Operations was designed to make loans on concessional repayment terms and accordingly relies primarily on government funds.

The Bank was initially established with an authorized Ordinary Capital amounting to \$850 million, of which \$400 million was to be paid in and \$450 million was to be callable. Of the initial callable capital, the United States subscribed to its share of \$200 million and the other members subscribed to their shares totaling \$232 million. (The balance of \$18 million was to have been the share of Cuba, which declined to join the Bank upon its establishment and subsequently became ineligible to do so.)

In 1964, the callable capital was increased by \$1 billion to provide for continued financial growth. Members subscribed to the increase in the same proportion as their subscriptions bore to the then-existing authorized capital of the Bank. At the same time, the authorized capital was increased by \$300 million to provide shares for possible subscriptions by new members. After the 1964 actions, the authorized capital stock of the Bank was \$2,150 million.

The callable capital of the Bank is a contingent liability of the member countries. It can be called only and to the extent necessary to meet obligations of the Bank on securities which the Bank has issued for sale in the private financial markets or on guarantees which the Bank has made. Otherwise, there is no burden on the member governments or on taxpayers in the United States or in the Latin American countries. If calls are ever required, they must be uniform in percentage on all capital shares. Calls cannot be exercised as a means of obtaining cash from governments to carry on normal loan operations.

On the strength of the contingent liability represented by the callable capital, which is in effect a guarantee of the member countries, the Bank has been able to go to the private capital markets in Europe and the United States and successfully place its own securities. The proceeds from these bond issues are then available to the Bank as additional capital for lending operations.

Since its inception in 1960, the Bank has borrowed in the capital markets of the United States, Italy, Germany, The United Kingdom, Switzerland and Belgium. It has borrowed in Latin American member countries, Spain and Israel through the sale of short-term bonds to their central banks. It has also borrowed from government agencies in Spain and Japan. The total of all these borrowings now outstanding is nearly \$515 million. Within present capital subscriptions, the maximum the Bank can borrow and have outstanding is \$611.8 million. This figure constitutes a limit because the Bank has covenanted with bond-holders not to permit its net borrowings to exceed the U.S. share of the subscribed callable capital.

The Bank's bonds that are floated in the United States are rated AAA and have sold broadly to institutional investors. In fact, every issue has been over subscribed.

The Bank's rate to its borrowers is controlled by the cost of money. Until the last issue in the U.S. market in November, the Bank's lending rate was 6½ percent, including 1 percent commission which is allocated to the special reserve. But in November, in view of the interest cost on that issue, it raised its rate on loans from funds borrowed in the United States to 7¾ percent. Funds borrowed in non-member countries are lent at rates that include up to an additional 1¾ percent above the cost of the funds.

The proceeds of these borrowings, together with the paid-in capital have provided the resources from which the Bank has made 155 Ordinary Capital



loans totaling over \$900 million. These loans have been concentrated largely in the fields of industry and mining, agriculture and electric power. As of December 31, 1967, the Bank had available for lending \$52.4 million in hard currencies, together with further borrowing capacity of \$98.2 million against the U.S. callable subscription. The proposed increase in callable capital is necessary to enable the Bank to borrow sufficient sums in the private capital market to maintain Ordinary Capital lending at the \$175 million per year level which the Executive Directors found to be desirable for the period through 1970.

As shown by the financial statements appended to the National Advisory Council's Report, the Bank's net income grew significantly in 1967 compared with 1966. As a result of its operations "in the black" over the years, the Bank began 1968 with a general reserve of \$32.8 million and a special reserve of \$10.4 million. The latter is kept available to meet any contingency with regard to the Bank's obligations created by borrowings and guaranteed loans. These reserves plus the splendid repayment record of the Bank's borrowers—only two loans, amounting to about 1 percent of commitments, are in default—assure a sound financial position. On the basis of the World Bank's 20-plus years of experience, and the Bank's own 8 years of experience, I fully expect that the Inter-American Development Bank will be amply able to meet its obligations and therefore will not require a cash transfer from the Treasury.

Recognizing the U.S. balance of payments problem, the Bank continues to place additional bond issues in nonmember countries and is currently pursuing opportunities in a number of these which it hopes will further materialize this year. To date, 35 percent of the Bank's debt has been raised in non-United States markets. Moreover, the Bank, when it has had recourse to the U.S. market, has been handling the investment of the proceeds of bond issues in a manner calculated to have minimal effect on the U.S. balance of payments.

In October of last year, the Bank's Board of Executive Directors approved a new program designed to mobilize additional resources from the developed countries which are not members of the Bank. This program makes the use of Bank funds for procurement in each nonmember developed country conditional upon an appropriate contribution of resources to the Bank by such country. It is intended to provide the Bank with greater access to the private capital markets of other industrialized countries and the Bank is vigorously pursuing that end. The new policy, while retaining competitive bidding for procurement among eligible countries, also helps to assure that the operations of the Bank do not result in an undesirable effect on the U.S. balance of payments.

In view of the legislative background on this matter last year, I would like to report at this time that pursuant to a U.S. initiative, the Board of Executive Directors on Monday agreed to propose to member governments the establishment of a system of continuing comprehensive audit of the Bank's activities. This system would give emphasis to appraising the effectiveness of the implementation and administration of loans made by the Bank. Approval by member governments is expected shortly. This system is in accord with the advice the Secretary of the Treasury received from the Comptroller General on the scope of the audit and the auditing and reporting standards, pursuant to Section 1 of Public Law 90-88.

As President Johnson has stated, the Inter-American Bank "stands at the center of the Alliance for Progress." The growth of its hard loan operations makes an increase this year in the Bank's callable capital both desirable and timely. Sales of bonds in private markets are now the Bank's principal source of lendable Ordinary Capital funds. Since 1960, the Congress has appropriated \$612 million which has remained with the U.S. Treasury as a guarantee behind these bonds. Not one dollar of this money has ever been spent, but this guarantee has enabled the Bank to raise its funds from private sources here and abroad to provide effective support for sound development projects. We must extend this worthy record. The Bank has given its full cooperation in conducting its operations along lines that minimize the impact on the U.S. balance of payments position. I urge that you act favorably to authorize the U.S. Governor of the Bank—the Secretary of the Treasury—to support the proposed increase and indicate U.S. readiness to subscribe to its share. I also urge you to authorize appropriation, without fiscal year limitation, of \$412 million representing the U.S. participation in this billion dollar expansion in the callable capital of the Inter-American Development Bank.

**Exhibit 50.—Statement by Under Secretary Barr, Acting as Governor for the United States, April 5, 1968, at the 1st Annual Meeting of the Asian Development Bank, Manila, Philippines**

For my Government, I am honored to participate in this first Annual Meeting of the Board of Governors of the Asian Development Bank.

Several thousand years ago, an ancient poet had this to say—

"To everything there is a season and a time to every purpose under the heaven.

"A time to weep and a time to laugh, a time to mourn and a time to dance.

"A time to rend and a time to sew.

"A time to love, and a time to hate, a time of war, and a time of peace."

My fellow governors we meet at a singular moment in the history of man. There are today the first glimmers of the possibility of peace in this area. We have survived in the past few months an attack of unparalleled ferocity on the international financial arrangements under which we have lived for the last two decades. Unquestionably we are moving into a new era in which our directions are unclear. I have no doubt that the systems we have devised for maintaining order in the affairs of men—physical as well as financial—will be subjected to stress and to strain and to continuous scrutiny and questioning. To paraphrase the song of the ancient poet, "This is a time of crisis—but also a time of hope."

As we grope our way forward into the problems of the future, I believe that two facts are self-evident.

First, there can be no improvement in the condition of men unless we can establish a world in which physical order is a fact and not a theory.

Secondly, financial disorder is next only to physical disorder in its effect on the affairs of mankind.

If we could accept these two theses as given; if we accept the fact that the world is preparing for change; perhaps it would be useful to review briefly where we have come in our own particular areas of responsibility—finance and development—what is worth keeping, what can be improved, and where this new institution fits into the total scheme.

The modern history of international cooperation in the fields of finance and economic development begins with the Bretton Woods Agreements of 1944. That historic accord set the world on a course to which we have adhered—with the expected zigs and zags of history, but nonetheless with a remarkable degree of consistency—over the past 23 years.

The Bretton Woods Agreements had two basic objectives—first, the creation of a system of international financial arrangements in the IMF that facilitated and encouraged an unprecedented expansion of trade, investment and finance among the free nations of the world. It was specifically designed to steer the world away from the protectionist and divisive economic forces that had characterized the world of the 1930's.

The second objective of the Bretton Woods Conference was to direct and concentrate the energies of the Free World on the processes of rational economic development—first in rebuilding Europe and Japan, and now by assisting in the improvement of the economies of the developing nations.

The meeting of the Ministers of the Group of Ten in Stockholm last week was a giant step forward in the effort to continue the development of sensible and reliable international financial arrangements. The Stockholm meeting, and its predecessor at Rio de Janeiro, reflect the Free World's conclusion that it can no longer depend exclusively on gold and reserve currencies to provide a level of reserve growth that will underwrite continued and an even accelerated expansion of international trade, investment and finance. The decision which governments will soon be asked to ratify is a conscious step to pool their collective resources in the creation of a truly international financial unit that can take its place with gold and the reserve currencies in the reserves of nations.

I am certain that there is no need for me to elaborate on the crucial importance of this decision to my fellow Governors. It is a fundamental and purposeful move to head off any tendency for our international financial arrangements to fall into disarray, and to preclude the reemergence of the suffering and decay that many of us witnessed in the decade of the 1930's. It is difficult to imagine a step that is more crucial to all of us—developed as well as developing nations.

All of us can take heart, I believe, in the sense of responsibility which the free nations have thus far evidenced.

Unless our international monetary system is in order and is functioning, development progress is impossible. Unless our international financial arrangements are secure, the transfer of resources from the industrial nations to the developing nations will surely break down. Thus the decisions at Stockholm, and the ensuing decisions to be made by all of the member governments of the International Monetary Fund, are crucial to what the ADB is attempting to accomplish here in Asia, as well as to the comparable efforts in Africa and Latin America.

These past 23 years also have seen the creation of a new concept in economic development—regional cooperation through the regional development banks—as a logical extension and supplement to the original concept of the World Bank. The realities of the world today clearly indicate that there is a compelling desire in the peoples of Asia, Africa, and Latin America to develop institutions oriented toward their particular problems. This, I think, is surely understandable. The needs of Asia are not the needs of Latin America. The problems of Africa are equally dissimilar to the problems of the other two developing regions. I believe that most of us who have watched this development have concluded that the regional banks have an extremely important role to play in the development efforts in which we are all so vitally concerned.

The development system which has emerged gives me a great measure of encouragement. We now have a sound World Bank prepared to operate with a global perspective. The regional banks, in turn, are now preparing to focus and enlarge the efforts of the nations of the region to work with their neighbors, and with their other friends around the world, to bring a better life to their peoples. In this process the Asian Development Bank has a vital role to play.

Two-thirds of the world's population lives in Asia. The problems you face are not all common to the rest of the globe. Only by working together can you most effectively meet the needs of this great region.

My Government takes great satisfaction in the solid and constructive first year of this Bank's history. President Watanabe is to be congratulated on having assembled a staff which is distinguished not only by its professional competence, but also by the breadth of its regional experience and background. Both the President and the Board of Directors are to be commended on the efficient and expeditious manner in which they have dealt with the tedious but important matters involved in organizing an institution of this kind. Within six months of its establishment the Bank was prepared to undertake the tasks for which it was founded. Its performance to date is noteworthy and augurs well for the future. It has undertaken and completed a comprehensive Asian Agricultural Survey. It is preparing to undertake a comprehensive regional transport survey at the request of a number of members. These will provide a solid foundation for future operations.

In conclusion let me repeat "This is a time of crisis—but also a time of hope." Unquestionably there have been times in the past two decades when we have been foolish, selfish, and short sighted. But there is also strong evidence to conclude that much of what we have done is sensible, rational and moral.

Slowly but inexorably we are furthering the evolution of a workable system of international financial arrangements. We have somehow evolved a practical system for meeting the development problems of the world. Finally, I know that the other Governors of the Bank must share my fervent hope that the first glimmers of peace in this region which have appeared in the past few days will produce the respect for order which all nations seek. If our hopes are realized, we shall see an immense expansion in the opportunities for the effective functioning of this institution. The role of this Bank in the years or perhaps the months that lie ahead can be crucial to the hundreds of millions of people whose hopes are so clearly associated with the successful development of this region.

As you know President Johnson has recommended to the Congress that we contribute \$200 million to the Multilateral Special Funds of this Bank. The United States, like most other nations, is confronted with enormous demands for funds needed at home and abroad. However, the opportunity to participate in funds designed to promote agricultural development, transportation and communications improvement and eventually the development of the Mekong River constitutes an exciting challenge that carries the very highest priority in our thinking.



In conclusion I should like to express, on behalf of the United States Delegation, our deep appreciation of the warm and gracious hospitality of the Philippine Government and people.

Thank you.

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**Exhibit 51.—Statement by Under Secretary for Monetary Affairs Deming, July 14, 1967, before the Senate Finance Committee, on the interest equalization tax**

I am here today to request your approval for the President's recommendations regarding the interest equalization tax (IET). These recommendations have been, to a large extent, incorporated in H.R. 6098 as passed by the House of Representatives. The bill, if amended in accordance with the remaining recommendations, would:

- as in the present H.R. 6098, extend the interest equalization tax from its current expiration date of July 31, 1967, to July 31, 1969;

- revise the tax rates applicable to foreign borrowing in the United States to range between the equivalent of zero and two percent per annum, and give the President discretionary authority to vary the effective annual interest cost to foreign borrowers within this range (the current statutory rate is fixed at one percent, and the range of discretionary authority in the present H.R. 6098 runs from one to one and a half percent); and

- as in the present H.R. 6098, set the tax rate equivalent to one and one-half percent per annum for the period January 26, 1967, through the 29th day after enactment of the legislation. On the 30th day after enactment, the tax rate would revert to the current statutory rate of one percent unless the President exercised his authority with respect to the schedule of rates.

The prime and immediate reason necessitating extension and revision of the interest equalization tax is the U.S. balance-of-payments problem. The U.S. trade position is improving. The trade surplus in the first 5 months of 1967 is running at an annual rate of \$4.4 billion as against \$3.7 billion for the full year 1966 and \$2.9 billion, annual rate, in the fourth quarter of last year. Unfortunately, the foreign exchange costs of our military presence abroad have been rising, reflecting primarily the Vietnam War. In such a situation we have no recourse but to continue to moderate the flow of our capital exports. The IET helps us to do this.

When we appeared before the House Ways and Means Committee on February 15, 1967, we were able to report that interest rates both here and abroad had declined. A month earlier, Secretary Fowler had met with several of his European colleagues at Chequers. They agreed that the prevailing high level of interest rates was a barrier to the pursuit of their respective national economic policies; they further recognized the desirability of working toward a general reduction of these high rates. Their efforts met with success. But by February the spread between rates here and abroad had widened even though there were absolute declines in rates in both areas. That prompted us to stress the fact that rate spreads could both widen and narrow and that future interest rate developments in the United States and in Europe could not be predicted with any precision. Thus we believed it would be well to have some flexibility in the IET rates so as to protect against both types of development.

Since mid-April we have seen one of the most rapid rises in long-term rates in our history. Rates on long-term Treasury bonds jumped from about 4.60 percent in mid-April to more than 5 percent by late June, while rates on high grade new corporate utility bond issues rose from about 5.57 percent to 6.11 percent in late June. Recently there have been equally dramatic increases in short-term rates—in the 30 days between June 5 and July 5 the yield on Treasury bills jumped from 3.37 to 4.29 percent. In the last few days, a steadier atmosphere has prevailed in the markets but the rate changes of recent weeks and months are striking.

The rate differential between the United States and Europe now is narrower than it was 3 months ago. But there are some indications that even with slower European growth in prospect rates in Europe may be ready to move up and again widen the differential.

The differential, however, could also widen if interest rates in the United States recede from their current levels which at the long-end of the market are almost as high as in the summer of 1966. It is our hope that such a development

will occur. We also hope that rates in Europe will go down rather than up, but we obviously cannot be certain that this will take place.

What is clear is that the general movement of interest rates in the United States and in Europe since the IET was proposed in 1963 has led to a widening of the differential. In 1963, the spread between the average yields on outstanding U.S. Treasury and West European government bonds was only 86 basis points. (See table I, attached.) Since then, the differential has widened—it reached 150 basis points in February 1967. Today, despite a relatively larger rise in U.S. rates than those abroad in recent weeks, the spread still exceeds 100 basis points, as compared with 86 in 1963.

The importance attached to the spread between yields on Government bonds reflects the fact that the governments of countries now subject to the IET were borrowing here at a seasonally adjusted annual rate of over \$200 million just prior to announcement of the tax in mid-1963. Securities of these potential borrowers compete for available investment funds with U.S. Government and high-grade U.S. corporate issues.

Another important differential is that between the yields on new issues of foreign bonds, government and corporate, and the yields on new issues of U.S. corporate bonds. A rough measure of this differential is obtained from a comparison of the average of the yields on new dollar bond issues in international markets by countries subject to the IET and on new U.S. Aa-rated corporate bond issues in the U.S. market.

Table II shows that yields on new U.S. corporate bonds reached a peak in September 1966. By the end of 1966, they had declined to a level close to that of yearend 1965. While the yields in international markets on foreign dollar issues, subject to the IET, peaked at about the same time as comparable U.S. issues, they did not decline as quickly. As a result, the rate differential widened substantially and in March 1967 stood at 120 basis points. Since then, the rates have converged until they were separated by about 50 basis points in June—a differential that may grow again if rates in Europe stiffen. The magnitude and swiftness of these recent swings in the differential also emphasize the need for flexible authority to vary the rate of tax.

The above comments compared average yields here and abroad. The differentials between yields on particular U.S. and foreign securities of similar type and quality would in some cases show even wider differentials than the average yields quoted above.

In the case of long-term bank loans, it is difficult to ascertain actual interest-rate differentials between here and abroad, partly because of lack of information about banks' policies regarding maintenance of minimum balances by foreign as compared with domestic customers. Overdraft loan rates in a number of European countries, however, have been ranging from one to two percent higher than the U.S. prime rate—and this differential probably also exists for longer-term bank loans.

Furthermore, it is of interest to note that between February 10, 1965, and May 31, 1967, with the one percent rate of IET tax, private firms and government agencies in developed countries drew down an estimated \$290 million of long-term funds, gross, under U.S. bank commitments made during that period. Their willingness to use funds on which the IET had to be paid suggests that there was an interest rate inducement for foreigners to borrow from U.S. banks. It also suggests that the IET is a mechanism to moderate the demands on our market, not to abolish these borrowings.

The interest equalization tax, as you will recall, was proposed in July 1963. At that time, the U.S. balance of payments was continuing to show substantial deficits as it had during previous years and the dollar was weak in the foreign exchange markets. A rapid acceleration in the outflow of private capital from the United States was making this situation even worse; for the first half of that year portfolio and long-term bank investments abroad reached an annual rate of \$2.4 billion compared with an average of \$0.9 billion for the period 1960-62. At mid-year the outflow of funds threatened to continue, if not increase.

When, on July 18, 1963, President Kennedy proposed the interest equalization tax, this alarming outflow of capital was promptly halted. Careful consideration of the capital outflow problem at that time led to the judgment that the IET was a more desirable and appropriate corrective measure for the United States than an imposition of direct capital controls or an increase in the domestic levels

of interest rates. That remains our judgment today. Advantages of the IET over alternative policies are:

- it operates through the free market-price mechanism;
- it does not interfere with domestic economic programs of full employment and growth; and
- it is in accordance with the U.S. long-term objective of encouraging the development of a more effective European capital market.

The IET was not designed to halt completely the outflow of portfolio capital from the United States, but rather to return the rate of outflow to a more normal level and, in view of the failure of countries in balance-of-payments surplus (principally Continental European countries) to reduce the size of their surpluses, to restrain the outflow of portfolio capital to these countries.

In discussing the success of the IET in helping the balance of payments, first let me note the effects of the tax on new foreign security issues marketed in the United States. New issues subject to the tax began to fall off almost immediately after its proposal in July 1963 and remained at a minimal level after the legislation was passed in September 1964. (See table III, attached.)

—All of the issues marketed during the second half of 1963 (\$110 million) had been arranged before the tax was proposed and were exempt from the tax.

—The two issues marketed in 1964 totaled \$20 million in value and were also exempt from the tax under various provisions of the law.

—In 1965, U.S. residents purchased \$80 million of taxable new securities. All of these reflected a special situation of U.K. firms borrowing in the United States in order to finance direct investment expenditures here.

—In 1966, there were only \$9 million of taxable issues.

—In the first quarter of 1967, there were no new issues subject to IET.

The results with respect to trading in outstanding issues of foreign securities have been equally beneficial to the U.S. balance of payments. (See tables IV and V.) From the middle of 1963 through 1966, U.S. residents were net sellers of foreign securities (bonds and stocks) at an average annual rate of \$200 million. By contrast, in the 3½ years preceding announcement of the IET in July of 1963, U.S. residents were net purchasers of outstanding foreign stocks and bonds at an average annual rate of \$275 million. The shift from net purchases to net sales had a favorable effect of almost \$500 million in our balance of payments. In the first quarter of this year there were net purchases by American residents of \$6 million of outstanding foreign issues.

The net sales of foreign securities by Americans since mid-1963 have been almost entirely in foreign stocks. During most of this period there continued to be small net purchases of foreign outstanding bonds, although in greatly reduced amounts as compared with the period before the middle of 1963. The same situation prevailed in the first quarter of this year. Americans continued to liquidate foreign stocks in an amount of \$34 million while purchasing foreign bonds in a net amount of \$40 million.

The effect of the IET on U.S. capital outflows in the form of bank loans is equally impressive. Long-term commercial bank loan commitments, shown in table VI, have fallen markedly for countries subject to IET—by more than 50 percent. This compares favorably with a small reduction in commitments to non-IET countries.

Since 1963, our effort to improve the balance of payments has been reinforced by the addition of the Voluntary Cooperation Program as well as other measures. Under that program, as you know, guidelines have been suggested both for direct investment abroad by business firms and also for foreign lending by banks and by other financial institutions. The function of the IET in this overall policy is critical, and the relationship of the tax to other parts of the program is of great importance. For example, the IET deters some potential borrowers in developed countries from even applying for long-term loans at U.S. banks or other financial institutions and, by reducing the pressure of foreign demand on these institutions, it has thereby made it easier for them to observe the guidelines. In addition, the tax has deferred foreign borrowing from U.S. persons not covered by the Voluntary Cooperation Program.

Thus, the interest equalization tax and the Voluntary Cooperation Program have worked in tandem and have complemented each other as measures for correcting the balance-of-payments deficit. The same factors which led the Administration to strengthen and extend the Voluntary Cooperation Program last



December indicate that a similar need now exists for strengthening and extending the interest equalization tax. Failure to extend the interest equalization tax would have adverse balance-of-payments consequences and would place undue strain on other elements of the Administration's economic program.

To summarize at this point:

—Pressures on the U.S. balance-of-payments position are likely to continue into the future.

—Present interest rates are too high and it is our hope that they will recede to a level more in keeping with the healthy operation of our economy.

—It is not possible to predict precisely future changes in the interest rate differential between the United States and abroad; the differential may narrow or it may widen and, as we have seen in recent months, the change may occur with lightening speed. If it widens, we would face the threat of additional capital outflows.

In view of these pressing needs and uncertainties, we recommend, as H.R. 6098 presently provides, that the interest equalization tax be extended for 2 years beyond its current expiration date of July 31, 1967.

The IET must be adequate to its task, and it is for this reason that we have requested that the tax rates be revised so that they may be fixed within a range of zero to approximately 2 percent per annum equivalent extra cost to foreign borrowers. The tax rates under existing law and under the proposed amendment are shown in table VII.

H.R. 6098, as passed by the House, would establish an effective range of rates from one to one and one-half percent per annum. But this range is not broad enough to make the IET effective under the potential economic situations which may occur following enactment of the legislation. To forestall any possible policy conflict between our balance-of-payments goals and the needs of our domestic economy, I strongly urge you to approve the request for rates that would involve a range from zero to two percent per annum. The Presidential discretionary authority provided in the House bill could then be exercised to vary the rates so that the annual cost of the tax to the foreign borrower might vary between zero and two percent.

Given the facts

—that we want to restrain capital outflows without prohibiting them,

—that considerable uncertainty exists concerning how the differential between interest rates between here and abroad will move in the period ahead, and

—that we want to phase out the restraining effect of the IET on capital outflows as our balance-of-payments position permits, we believe the range I have indicated is fully warranted.

The provision for flexible Presidential authority, within the range finally determined upon, is included in H.R. 6098 and is supported by five major factors:

(1) The IET was not designed as a source of revenue but as a regulatory measure. The Congress is not being asked to set a precedent for discretionary Presidential tax authority.

(2) The problem with which the IET is designed to cope is really a problem involving capital flows, not tax matters in the usual sense. The tax, therefore, should be flexible enough to enable the President to respond to changes in international capital flows brought about by changes in foreign monetary policies.

(3) The tax is concerned with an international as contrasted with a domestic situation and hence must respond to the wide variety of factors outside the United States that can affect its impact.

(4) If the interest equalization tax had been intended either as a revenue measure or as an absolute deterrent to the purchase of foreign securities, it would have been possible to establish an appropriate tax rate (either low or high) and never deviate from this rate. In fact, the IET is designed to reduce the rate of capital outflow from the United States to a level consistent with current balance-of-payments requirements. As these economic conditions change, the tax rate must be susceptible to some adjustment.

(5) Congress, in passing the original IET and in subsequent amendments, has recognized the need for delegating flexible authority to the President.

—You gave the President authority to reclassify as "developed" countries which were originally designated as "less developed."

—You gave the President authority to exempt "developed" countries from the tax in certain exceptional cases.

- You granted authority to the President to extend its provisions to bank loans.
- You gave the President authority to exempt from the tax dollar loans by foreign branches of U.S. banks.

Careful consideration has been given by the President to the discretionary provisions of the law, and his use of this authority has resulted in substantial gains for the balance of payments. In light of the need to guard against the contingency of an adverse international rate differential, the present request adds one reasonable, but limited, form of flexibility to enable this tax to achieve its regulatory objectives more efficiently. I can assure you that the discretionary authority will be used to set the rate of tax at a level appropriate to current economic conditions.

The United States normally earns a current account surplus. A part of this surplus is used for defraying balance-of-payments drains resulting from the exercise of our global political and military responsibilities; a further part is used—and quite properly should be used—for the export of capital. Within this framework, good balance-of-payments adjustment policy requires flexible means for restraining capital flows in order that neither overall balance-of-payments deficits nor surpluses should become chronic. To achieve this goal and to maximize the usefulness of the interest equalization tax, it is important that the flexible authority be applicable within the full zero to 2 percent range.

Use of such authority would not, of course, be linked mechanically to changes in relative interest rates here and abroad; it would also be based on the development of our balance-of-payments situation. We would not anticipate using such authority to change the IET rate every month or even with every minor change in the monetary indicators. The frequency of its use would depend on events for which no regular time pattern is foreseeable.

Finally, such authority also insures that when it becomes desirable to lower the tax, gradual and flexible action can be taken without fear that speculative or anticipatory pressures would develop. Investors would be quick to realize that development of such pressures would be met by an immediate reinstitution of the higher rate. In contrast, failure to grant Presidential authority to adjust the rate would necessitate its being set at a level which, under certain economic conditions, would be arbitrarily high.

Let me now turn to two matters which we think warrant legislative action. The first involves the definition of a less developed country shipping corporation. Residents of industrial countries have been forming corporations in less developed countries to engage in the operation of ships registered under the laws of a less developed country. While such ships are engaged in foreign commerce, they have no particular connection, other than registration, to any less developed country. Yet, under the existing exemption, such corporations have been raising funds in the United States free of the tax. It is, therefore, proposed that in addition to the existing requirements, a foreign corporation may qualify as a less developed country shipping corporation only if 80 percent or more of each class of its stock is owned by residents of less developed countries, United States persons, or both.

The second matter involves the export exemption applicable where an agency or wholly owned instrumentality of the United States, such as the Export-Import Bank, insures or guarantees the payment of a foreign debt obligation. Under current law, the exemption is applicable only if the debt obligation is issued by the foreign importer. In a number of cases, however, the debt obligation may be issued by a company affiliated with the importer, the importer's bank or a semi-public credit institution. Where a U.S. Government agency or instrumentality is involved, the export nature of the transaction can be relied upon because of its participation. Therefore, the requirement that the importer and the issuer of the debt obligation be the same person seems unnecessary. An amendment to this effect is therefore proposed.

Before concluding my remarks, I would like to invite your attention to an important and beneficial consequence of the interest equalization tax. The growth

of the European capital market has been a priority goal of U.S. policy for many years. There has been general recognition that this market could not be developed to handle all of Europe's needs overnight. But, by restraining foreign access to capital and money markets in the United States, the IET in conjunction with the Voluntary Cooperation Program for corporations and financial institutions has operated as one of the primary causes of an important and exciting change in the size and structure of the European market.

The growth of the international capital market (shown in table VIII) has been striking. In 1962, the volume of new international bond issues sold in European markets was \$360 million. The flotation of such issues accelerated during the second half of 1963 and, in 1964, reached a level of \$991 million. In 1966 the amount of new flotations was \$1,286 million, an increase of more than 200 percent over the most recent pre-IET year. And, in the first quarter of this year, new international issues were at an annual rate of \$1.8 billion. I am happy to say that the U.S. investment banking houses have shared in this development by heading many of the underwriting syndicates.

One of the particularly attractive features of a well-developed European capital market is illustrated by the increased use of this market by affiliates of U.S. corporations in the financing of their investment needs. Although there were no sales of new long-term securities abroad for the financing affiliates of U.S. companies during 1963 or 1964, by 1966, the amount of such issues had reached the level of \$490 million.

There are other welcome developments. The Common Market countries are giving a great deal of consideration to capital market problems and some reforms are being instituted. The Organization for Economic Cooperation and Development is actively working to stimulate improvements. Some liberalization of international capital movements has taken place—for example, the recent French measures reducing some of their remaining restrictions on capital flows.

Unfortunately, progress in this area is not always easily achieved, and there have also been some setbacks. The disparity between the capital export capacity of the U.S. market and that of capital markets abroad remains too wide to permit us to remove the IET now. One indication of the problem that would be faced is suggested by the 8 percent to 9 percent interest rates which for some time prevailed in Germany, and by the fact that even with the substantial—and welcome—declines of recent months, the yield on German public authority bonds has only recently fallen below 7 percent.

Another indication of the problem is the inability of national markets in Europe to satisfy even their own nationals. The list of borrowers in international bond markets in recent months has included major companies from Italy, Germany, and France. Borrowings by such firms, along with frequent borrowings by Scandinavians and a few others, have led to an increase in international bond issues by Western Europeans from less than \$300 million in 1962 to over \$700 million last year. Some—perhaps, many—of these borrowers would forsake the international bond market in Europe and return to New York if the disincentive of the IET were removed.

These are compelling reasons for the extension and reinforcement of the interest equalization tax along the lines we have proposed. In this new form the interest equalization tax will continue to make a vital contribution to the current U.S. balance-of-payments program. In addition, it will serve as an adaptable policy instrument for dealing with likely changes in the world economic situation and changes in the international payments position of the United States.

Our payments position still requires corrective measures. I, therefore, earnestly request prompt action on the foregoing recommendations.

I have a supplementary statement of recommendations for tightening certain provisions of the tax so as to meet a problem of evasion that has become significant in recent months.



TABLE I.—*Comparison of yields on U.S. and various foreign government long-term bonds*

[Percent per annum; monthly average]

	Yield				Foreign differential over U.S. Treasury bond yield			
	June 1963	Sept. 1966	Feb. 1967	May 1967	As of June 1963	As of Sept. 1966	As of Feb. 1967	As of May 1967
Western Europe (average).....	4.86	6.15	5.95	5.87	0.86	1.36	1.48	1.11
Belgium.....	4.00	5.84	5.88	5.86	0	1.05	1.41	.10
Denmark.....	6.54	8.05	8.24	7.95	2.54	3.26	3.77	3.19
France.....	5.09	5.45	5.58	<sup>1</sup> 5.71	1.09	.66	1.11	.95
Germany.....	6.03	8.11	7.40	<sup>1</sup> 6.90	2.03	3.32	2.93	2.14
Italy.....	5.06	5.90	5.55	<sup>2</sup> 5.62	1.06	1.11	1.08	.86
Netherlands.....	4.12	6.45	5.89	5.81	.12	1.66	1.42	1.05
Norway.....	4.66	4.45	4.41	4.38	.66	— .34	— .06	— .38
Sweden.....	4.52	5.85	5.37	5.26	.52	1.06	.90	.50
Switzerland.....	3.15	4.25	4.74	4.67	— .85	— .54	.27	— .09
United Kingdom.....	5.44	7.12	6.40	6.51	1.44	2.33	1.93	1.75
Other developed:								
Australia.....	4.50	5.25	5.25	5.25	.50	.46	.78	.49
New Zealand.....	5.17	5.38	5.43	<sup>2</sup> 5.49	1.17	.59	.96	.73
U.S. Treasury bonds.....	4.00	4.79	4.47	4.76				

<sup>1</sup> April data.<sup>2</sup> March data.

SOURCE: "International Financial Statistics," IMF.

TABLE II.—*Comparisons of average yields on new issues of long term bonds in U.S. and international markets*

[Percent per annum]

	Yield on new dollar bond issues in international markets by foreign issuers subject to IET <sup>1</sup>	Yield on new U.S. Aa-rated corporate issues	Difference
	(1)	(2)	(1) — (2)
June 1963.....	n.a.	4.32	n.a.
September 1966.....	7.17	6.14	1.03
December 1966.....	6.82	5.98	.84
March 1967.....	6.75	5.55	1.20
May 1967.....	6.42	5.90	.52
June 1967.....	6.55	6.06	.49

<sup>1</sup> Foreign issuers subject to the IET include foreign governments, government-owned enterprises and private corporations.

n.a. Not available.

TABLE III.—*New issues of foreign securities purchased by U.S. residents, by area, 1962-66*

[In millions of dollars]

	1962	1963		1964	1965	1966	1967 First quarter <sup>1</sup>
		First half <sup>1</sup>	Second half <sup>1</sup>				
Total new issues.....	1,076	999	251	1,063	1,206	1,210	332
IET countries:							
West Europe.....	195	219	53	20	80	15	-----
Japan.....	101	107	57	-----	52	4	-----
Other <sup>2</sup> .....	60	17	-----	-----	-----	-----	-----
Subtotal.....	356	343	110	20	132	19	-----
Of which:							
(i) Subject to IET.....					80	9	-----
(ii) Exempt from IET.....			110	20	52	10	-----
Reason:							
(a) Commitments made prior to July 18, 1963.....			(110)	( )	(..)	(..)	(..)
(b) U.S. export-related.....			(..)	(9)	(..)	(..)	(..)
(c) Japanese exemption.....			(..)	(..)	(52)	(..)	(..)
(d) Other.....			(..)	<sup>3</sup> (11)	(..)	<sup>4</sup> (10)	(..)
Other countries:							
Canada.....	457	608	85	700	709	<sup>6</sup> 922	256
Latin America <sup>5</sup> .....	102	13	23	208	37	69	38
Other countries.....	77	35	33	131	149	120	24
International institutions.....	84	-----	-----	4	179	80	14
Subtotal.....	720	656	141	1,043	1,074	1,191	332

<sup>1</sup> Not seasonally adjusted.<sup>2</sup> Australia, New Zealand, South Africa.<sup>3</sup> Issue had maturity less than three years, which was lowest maturity to which tax had applied prior to Feb. 11, 1965.<sup>4</sup> Issue by United Kingdom subsidiary of Canadian firm.<sup>5</sup> Includes Latin American Development Bank issue of \$145 million in 1964.<sup>6</sup> Before deducting \$162 million of Canadian Government purchases from U.S. residents of outstanding Canadian and other foreign securities in accordance with Canada's agreement not to let its foreign exchange reserves rise as a result of borrowing in the United States.TABLE IV.—*Net transactions in outstanding foreign securities by U.S. residents, 1960-66*

[In millions of dollars. Minus sign indicates net purchases by U.S. residents and no sign before a figure indicates net sales by U.S. residents]

Year	U.S. transac- tions with residents of all countries
1960.....	-309
1961.....	-387
1962.....	-96
1963 first half annual rate.....	-302
(Average annual rate 1960-June 1963).....	-274
1963 second half annual rate.....	204
1964.....	193
1965.....	226
1966.....	323
(Average annual rate July 1963-1966).....	238
1967 first quarter annual rate.....	-24

SOURCE.—*Survey of Current Business*, Department of Commerce.

TABLE V.—*U.S. transactions in new and outstanding foreign bonds and stocks,<sup>1</sup> 1959-67*

[In millions of dollars]

Period	New issues (net purchases by Americans —)			Net transactions in outstanding issues (net purchases by Americans —)		
	Total	Stocks	Bonds	Total	Stocks	Bonds
1959.....	-625	-3	-622	-140	-194	+54
1960.....	-555	-13	-542	-309	-82	-227
1961.....	-523	-36	-487	-387	-324	-63
1962.....	-1,076	-74	-1,002	-96	-25	-71
1963—Total.....	-1,250	-53	-1,197	-49	+113	-162
1st half.....	-999	-32	-968	-151	-3	-148
2d half.....	-251	-21	-229	+102	+116	-14
1964—Total.....	-1,063	-4	-1,059	+193	+210	-17
1965—Total.....	-1,206	-4	-1,202	+226	+297	-71
I.....	-302	-3	-299	+49	+108	-59
II.....	-329	.....	-329	+130	+76	+54
III.....	-304	-1	-303	+53	+67	-14
IV.....	-271	.....	-271	-6	+46	-52
1966 <sup>p</sup> —Total.....	-1,225	-46	-1,179	+323	+253	+70
I.....	-466	-34	-432	-9	+2	-11
II.....	-305	-6	-299	+122	+75	+47
III.....	-241	-6	-235	+155	+96	+59
IV <sup>p</sup> .....	-213	.....	-213	+55	+80	-25
1967, I <sup>p</sup> .....	-322	.....	-332	-6	+34	-40

<sup>p</sup> Preliminary.<sup>1</sup> Excluding direct investment transactions.TABLE VI.—*Long-term U.S. commercial bank loan commitments to foreign countries, by area, 1964-67*

[In millions of dollars]

	1964	1965			1966	1st quarter 1967
		Total	Jan. 1- Feb. 10	Feb. 11- Dec. 31		
Total, all countries.....	2,227	1,885	768	1,117	898	158
IET countries, total.....	1,246	1,014	574	434	207	37
West Europe <sup>2</sup> .....	718	396	234	162	101	25
Other <sup>3</sup> .....	528	617	339	272	106	12
Of IET countries, total:						
Subject to IET <sup>4</sup> .....				189	138	8
Exempt from IET.....				245	67	29
Reason:						
U.S. export financing.....				198	67	29
Raw material extraction.....				47	.....	.....
Other Countries.....	981	871	194	683	690	121

<sup>1</sup> Date when IET made applicable to long-term U.S. commercial bank loans.<sup>2</sup> Includes Ireland and Portugal from May 5, 1965.<sup>3</sup> Includes Australia, New Zealand, South Africa; also Bahamas and Bermuda from May 5, 1965; also Iran, Libya, and Saudi Arabia from June 11, 1966. Excludes Canada beginning Sept. 12, 1966.<sup>4</sup> To extent of amounts actually disbursed.



TABLE VII.—*Interest equalization tax rates*

	Rates of tax under existing law	Rates of tax under proposed amendment
If the period remaining to maturity is:	<i>Percent</i>	<i>Percent</i>
At least 1 year, but less than 1½ years.....	1.05	0 to 2.10
At least 1½ years, but less than 1¾ years.....	1.30	0 to 2.60
At least 1¾ years, but less than 1¾ years.....	1.50	0 to 3.00
At least 1¾ years, but less than 2¼ years.....	1.85	0 to 3.70
At least 2¼ years, but less than 2¾ years.....	2.30	0 to 4.60
At least 2¾ years, but less than 3¼ years.....	2.75	0 to 5.50
At least 3¼ years, but less than 4½ years.....	3.55	0 to 7.10
At least 4½ years, but less than 5½ years.....	4.35	0 to 8.70
At least 5½ years, but less than 6½ years.....	5.10	0 to 10.20
At least 6½ years, but less than 7½ years.....	5.80	0 to 11.60
At least 7½ years, but less than 8½ years.....	6.50	0 to 13.00
At least 8½ years, but less than 9½ years.....	7.10	0 to 14.20
At least 9½ years, but less than 10½ years.....	7.70	0 to 15.40
At least 10½ years, but less than 11½ years.....	8.30	0 to 16.60
At least 11½ years, but less than 13½ years.....	9.10	0 to 18.20
At least 13½ years, but less than 16½ years.....	10.30	0 to 20.60
At least 16½ years, but less than 18½ years.....	11.35	0 to 22.70
At least 18½ years, but less than 21½ years.....	12.25	0 to 24.50
At least 21½ years, but less than 23½ years.....	13.05	0 to 26.10
At least 23½ years, but less than 26½ years.....	13.75	0 to 27.50
At least 26½ years, but less than 28½ years.....	14.35	0 to 28.70
28½ years or more.....	15.00	0 to 30.00

TABLE VIII.—*New international bond issues floated in Europe* <sup>1</sup>

[In millions of dollars]

Borrower	1962	1963	1964	1965	1966	1st quarter 1967
Western Europe.....	190	362	662	660	686	271
Japan.....	25	64	209	25	-----	-----
Other developed.....	54	90	42	83	40	45
Total developed countries.....	269	516	913	768	726	316
All other countries.....	14	14	41	24	34	20
International institutions.....	63	4	37	83	36	8
Total.....	346	534	991	875	796	344
U.S. subsidiaries <sup>2</sup> .....	14	-----	-----	306	<sup>3</sup> 490	117
Grand total.....	360	534	991	1,181	1,286	461

<sup>1</sup> Including issues denominated in foreign currencies as well as in dollars; also including portion of foreign issues made in New York and sold to foreigners.

<sup>2</sup> Domestic based as well as foreign based.

<sup>3</sup> Excludes \$127 million exchange of convertible debentures for stock by a U.S. corporation to obtain major interest in a foreign enterprise.

#### SUPPLEMENTARY STATEMENT OF UNDER SECRETARY FOR MONETARY AFFAIRS DEMING, JULY 14, 1967

I would like now to discuss with you the interest equalization tax evasion problem.

As you know, the IET does not apply to purchases of foreign securities by Americans from American sellers. We have found that tax evaders are selling foreign securities in the United States with false representation as to American ownership.

The evidence does not indicate widespread individual noncompliance with IET laws but rather that a limited number of unscrupulous persons have operated to evade the IET. Indications are that the fraud became sizeable toward the end of 1966, perhaps stepping up in the first part of 1967, and probably substantially cut back by the end of last month as a result of our investigations. The Internal Revenue Service investigations of evasions over the past 6 months have identified, on a projected annual basis, illegal security transactions in the order of \$100 million to \$150 million. If left unchecked, the amounts involved in evasions could go considerably higher. We are concerned by any evasion and I want to describe in some detail both the manner in which evasion has been taking place and our proposals for stopping it.

Since the law went into effect, the Internal Revenue Service has conducted an educational campaign about its requirements, primarily for the benefit of security brokers. Delinquency checks were initiated to determine whether the tax was being paid on taxable purchases. Reports of alleged fraudulent transactions have been investigated. A special Grand Jury established in the Southern Judicial District of New York has returned indictments against six individuals and one corporation. The cases are awaiting trial for IET offenses and are scheduled for hearings in September.

Although considerable publicity has resulted from these legal actions, they have not achieved the degree of deterrence hoped for at the time of the establishment of the Grand Jury. This spring, the Securities and Exchange Commission provided the Internal Revenue Service with information obtained from a study of foreign securities trading which indicated that IET violations were taking place, possibly on a substantial scale.

For example, there appeared to be a large volume of transactions in which foreign-owned foreign stocks were channeled through foreign broker-dealers into the United States as if they were American-owned foreign stocks. In many cases, the certificate of American ownership, which was arranged to accompany the stock, was signed by an American citizen of unsubstantial means, residing outside of this country. These certificates were false. In some cases, documentation was arranged to make the American signing the certificate appear as the *bona fide* owner and seller of the stock. In some other cases, the American simply signed a certificate of American ownership in blank in exchange for a "fee" which sometimes amounted to \$10 per certificate.

The foreign broker-dealer would generally sell the foreign stocks, accompanied by the false certificates, to a small American over-the-counter broker-dealer. Typically, this dealer, in turn, would then re-sell the stock in the United States to larger broker-dealers specializing in foreign securities, confirming to them that the stock was American-owned. In the case of over-the-counter trading, a written confirmation received from a member of the National Association of Security Dealers, an association covering almost all American broker-dealers, is accepted as conclusive proof of prior American ownership, unless the confirmation is qualified, or unless the person making the acquisition has actual knowledge that the confirmation is false in any material respect. The larger broker-dealers presumably rely on this "clean confirmation" procedure, as it is called. In some cases, involving substantial volumes of stock, the foreign broker-dealers would sell directly to large American broker-dealers, some of whom are members of the major national securities exchanges.

These transactions appear to have been concentrated in foreign stocks with special appeal. The prices of these stocks abroad are generally several points or more below the price of the same shares when they are sold by one American to another on a tax-free basis. This spread of several points furnishes the profit resulting from these tax-evading transactions.

I come now to the possible solutions. At one end of the range of alternatives would be application of the interest equalization tax to transactions in foreign stocks between Americans, as well as to the purchase of such stocks by an American from a foreigner. To take this action would mean penalizing many legitimate transactions which do not hurt our balance of payments, in order to catch those fraudulent transactions which do hurt our balance of payments. This does not seem an appropriate solution.

At the other end of the range of alternatives would be an amendment of the IET law to exempt from the tax the purchase of outstanding foreign stocks from foreigners. This was suggested when the IET was first considered. The suggestion was discarded at that time, and I think properly so. The reasons are as follows.

Failure to tax outstanding equities at the same rate as new issues would lead to their substitution for the new issues as a means of raising capital in the United States. No one can distinguish new shares of stock from old once they are issued, and a sizable potential would be opened for the movement of American funds to Europe through secondary distribution of unissued stock, or stock assembled for sale from a group of foreign stockholders.

These techniques are well known. It would not be much of a problem for a potential European borrower to exchange new stock for outstanding blocks of foreign stock in his own stockholder's hand and then offer the latter to American customers as a means of raising funds tax free in the United States. American-owned foreign companies could be formed to do the same thing.

On the demand side, American investors have in the past and may again, in the absence of a tax on purchases of outstanding foreign stocks, become heavy buyers of such stocks with consequent adverse effect on our balance of payments. We simply cannot afford a weakening of this important legislation during this period of substantial balance-of-payments deficits.

Instead of either of the extreme solutions mentioned above, we are proposing one aimed, essentially, at eliminating the possibility of tax-free transactions among Americans in foreign securities based on false American certificates of ownership.

The Treasury recommends the establishment, effective Saturday, July 15, 1967, of a new system with respect to transactions between American buyers and sellers of foreign securities. The new system is designed to prevent evasion of the interest equalization tax.

In the past, sellers of foreign securities to American buyers could exempt the purchaser from payment of the interest equalization tax by assertion, on their part, of U.S. citizenship and ownership of the securities in question. Proof of American ownership was evidenced by an American ownership certificate signed by the seller.

Under the new system, the seller must, in addition to establishing his U.S. citizenship and ownership, establish that he obtained the securities "validly."

The seller can satisfy this requirement in the following manner:

1. He can obtain a "validation" from an eligible broker-dealer.
2. He can obtain a "validation" from an eligible bank.
3. He can obtain a "validation" from the Internal Revenue Service.

The effect of the new requirements is to replace a system under which certificates of American ownership signed by any U.S. person exempted the buyer from payment of the tax with a new system under which certificates issued by a limited number of institutions and the Internal Revenue Service are required to provide the buyer with this exemption.

To insure compliance at the "eligible" broker-dealer and bank level new reporting and record keeping requirements are being established, involving segregation of transactions in foreign securities from transactions in domestic securities.

To effect the transfer to the new system, the list of eligible broker-dealers will initially encompass all members of the New York Stock Exchange, the American Stock Exchange, and those members of the National Association of Security Dealers with net worth of over \$750,000 or who engaged in 300 or more transactions in foreign securities either during the week beginning July 2, 1967, or the week beginning July 9, 1967. The list of these firms will be set forth in the Federal Register and in Attachment A.<sup>1</sup>

The list of eligible banks will initially encompass Federal Reserve member banks classified as Reserve city banks.

Additional firms and banks will be added to these lists on appropriate indications that they will meet the reporting and recordkeeping requirements.

Eligible broker-dealers and banks may validate foreign securities held in their custody for American owners as of July 14, 1967. The Internal Revenue Service will establish by Monday, July 17, 1967, validation procedures with respect to other foreign securities.

The new procedures, described in detail in Attachment A,<sup>1</sup> have been prepared in consultation with industry experts in order to minimize technical problems when trading commences on the basis of these new rules on July 17, 1967. In addition, we are making special efforts to disseminate information on the new

<sup>1</sup> Omitted from this exhibit. Published as part of hearings before the Committee on Finance, U.S. Senate, 90th Congress, 1st session on H.R. 6098, July 14, 1967.



procedures as quickly and broadly as possible; material is being distributed to the financial community at this moment, giving all the necessary information.

I urge upon this Committee the necessary legislative action on the amendments which will make these new procedures effective so that this evasion ends.

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**Exhibit 52.—Remarks by Under Secretary for Monetary Affairs Deming, April 4, 1968, at the New York Society of Security Analysts International Monetary Seminar, New York, on the U.S. balance of international payments problem in our modern economic environment**

I am to talk to you tonight about the U.S. balance of payments. In doing so, I shall play variations on three themes. None of these themes are new. The first theme is *adagio*—the United States has a balance of payments problem which it can and must resolve. But a long overview of the United States international payments is most pertinent to seeing what the problem is. The second theme is *counterpoint* and intertwines with the first. It is that the balance of payments adjustment problem today is different and more complex than it was in earlier years. This is a general proposition, but it is particularly noteworthy in the case of the United States. The new balance of payments program must be viewed against that theme. The third theme—on gold and the new Special Drawing Right—begins *andante* but becomes *scherzo* in most modern style.

Let us begin with the first theme, which involves a quick but long-term overview of the U.S. balance of payments over the past 27 years. I hope not to overpower you with numbers or concepts here.

I need to introduce this theme with a brief program note. I shall be using the liquidity surplus or deficit when I cite overall numbers. But my categories differ somewhat from those used in conventional balance of payments accounting. The first category I use is trade and service account, which should have a familiar ring, but, as I use it, it does not include military transactions or investment income and it does include pensions and remittances. The second category is capital account, in which I include the income flows, both Government and private, as well as the capital flows, and, of course, net foreign capital transactions. But I also include errors and omissions. The third category is fundamentally Government grants and capital plus military transactions net of military sales.

It is useful in developing depth and color in this theme to break the 27 years, 1941–67 inclusive, into two major periods, and then to further subdivide those major periods. Let us look first at the 17 years, 1941–57 inclusive, and subdivide that period into three sub-periods: 1941–46; 1947–49; and 1950–57.

Over the full 17 years, the United States had a cumulative balance of payments deficit of less than \$10 billion, or an annual average of just under \$600 million. We ran a cumulative surplus on trade and services of \$85 billion, or about \$5 billion per year, a cumulative surplus on capital account of \$17 billion, or \$1 billion per year, and a cumulative deficit on military and Government account of \$112 billion, or \$6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of \$42 billion net. And yet, after all this, we gained gold reserves of \$800 million; our gold reserve at the close of 1957 was larger than at the beginning of 1941.

What this means, of course, is that we financed our deficit completely—and more—by increasing our dollar liabilities to official and private holders. In a world that was starved for reserves, the dollar was better than gold.

In the three subperiods, we can see these developments. In the war years, we ran a modest deficit averaging about \$800 million per year. From 1947 through 1949, our surpluses averaged \$1.7 billion. In the next 8 years, our deficits averaged \$1.2 billion. Our trade and service surplus diminished in succeeding subperiods, our capital account improved a bit, and our Government—military account deficit was significantly reduced.

The point I want to underline is that the United States, throughout this period, was in fundamental surplus but, through its deliberate policy of massive untied grant and loan assistance, incurred more or less consistent liquidity deficits. With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a unilateral adjustment process that benefited the world and, in so doing, helped both the world and itself.

It is no exaggeration to say that we picked up most of the checks for insuring free world security; we permitted disadvantage to our trade, we encouraged our tourists to go abroad and make substantial purchases there, and we strove mightily to increase our foreign private investment.

All of these policies were rational and in the interest of world trade and world economic growth. But, after 17 years, the habit of deficit had become so strong that it was hard to kick even when it became crystal clear that what was a good habit under earlier conditions had become a bad habit in the world of 1958 and following years. It became a bad habit in two respects. The deficits got larger and had to be financed both with increased dollar outflows and a reduction in our gold reserves, which fell \$11 billion between 1958 and 1967. The outside world, which had enjoyed the mild deficits of earlier years, got worried about the bigger ones, but it took some time before the surplus nations recognized that it was impossible to reduce deficits without reducing surpluses and that they had some responsibilities to discharge in the adjustment process.

In the 10 years, 1958-67, we ran a cumulative deficit of \$27 billion—an annual average of \$2.7 billion—more than four times the average of the earlier period. Our Government and military account deficit was reduced but remained large—\$55 billion in 10 years. It was, of course, strongly affected by Vietnam after mid-1965.

Our capital account in the 1958-67 period showed no real improvement as compared with the earlier period. The annual average, in fact, showed a smaller surplus than in 1941-57. Capital outflows on direct investment, in the form of bank loans and in portfolio, rose sharply—enough so that the steadily rising income just about kept it in balance, but only after the outflow had been somewhat contained and only after various special transactions, including some debt prepayments to the United States on Government account.

But the big change came in trade and service account. Here our cumulative surplus was less than \$19 billion, or under \$2 billion a year. Our exports grew but, particularly in later years, imports grew faster, and we incurred a rapidly increasing deficit on tourist account. We did, in 1961-64, show improvement in trade and services, but that improvement was not characteristic of the period as a whole.

Now comes the second theme of counterpoint—both a more full analysis of the deficit in 1958-67 and what was done to correct it.

One is frequently met with two broad questions concerning our payments balance problem.

The first runs as follows: The U.S. economy is strong, big, and growing. The dollar is the great reserve and transactions currency for the world. The balance of payments deficit is only a fraction of one percent of the gross national product. Why is there any problem?

The other runs along these lines: The deficit is small relative to gross national product. Why can't it be corrected very easily by merely restraining demand in the United States, thereby improving the current account and particularly the trade position? Both approaches, of course, imply that it is unnecessary to have any selective or direct program to curb outflows.

The answer to the first question is relatively simple. No one would be much concerned about a U.S. deficit which was a fraction of 1 percent for 1 year—or even several years. As I noted, in the early post-war years, our generous assistance to the war-torn countries of Europe and Asia left us with moderate deficits which we were prepared to accept. They were not only acceptable but desired by the countries which were receiving dollars to build up their reserves. But, by 1958, the deficits were becoming too big to finance easily. In 1958-60, they averaged \$3.7 billion. In that volume, they supplied too many dollars too fast to be absorbed into world reserves. A substantial part of those dollars came back for conversion into gold—and our reserves fell.

With the American economy operating well below capacity, there was nothing to be gained and much to be lost by depressing it further. Therefore, the first actions to reduce the deficit aimed at reducing the foreign exchange costs of Government spending overseas. Savings in this area, plus improvement in our trade account, reduced the deficit. But then capital began to flow out in increasing volume—partly because we generated large savings and had large capital markets; partly because of investment opportunities overseas, and partly because the long campaign to increase U.S. foreign investment had gradually won many converts. These tendencies were dampened somewhat by the interest equaliza-

tion tax in 1963 and by the voluntary program to restrain direct investment and foreign lending in 1965.

The 1960 deficit was \$3.9 billion. The 1962 deficit was \$2.2 billion. The 1965 and 1966 deficits average \$1.3 billion. But, in 1967, the deficit was back to \$3.6 billion, with half coming in the last quarter alone. That figure reflected a number of factors—some of which were nonrecurrent—but it was simply too big to ignore.

The second question requires a more complex answer to give the reasons why a proper corrective program for the U.S. balance of payments involves more than simple restraint on the domestic economy. But I want to make quite clear that restraint of the domestic economy is an integral part of the January 1 program—the part which the President called “the first order of business.” It is important to our international position and essential to our domestic position. It involves an income tax surcharge and other tax measures, plus expenditure control, plus a call for a more effective voluntary program of wage and price restraint. But, in addition to this “first order of business,” additional measures are needed for an effective program to correct our payments imbalance.

There are two primary reasons for this approach. First, balance of payments problems are more complex today than they were in the earlier years of this century.

Second, we have learned that too much deflation may cure a payments deficit but may end by killing the patient and passing on the disease to all of his relatives—his trading partners. It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Sharp deflation as a policy simply is not acceptable today in any country—or in the world.

In an earlier day, at least in theory, balance of payments deficits generally occurred when a country's economic pace was too fast relative to its resources and relative to growth in other major industrial and financial centers. The country with an inflationary boom began to have rising prices; its exports fell, and its imports rose. The direct effect was a reduced trade surplus. The cure was to deflate the economy, or, at least, dampen the inflation. And this was usually accompanied by general tightening of credit and rising interest rates that accentuated the deflation in the economy over time. Moreover, in the short run, these rising interest rates tended to stimulate borrowing abroad and to attract foreign capital in an equilibrating manner.

I have noted that a policy involving sharp deflation is no longer acceptable. But this is due not merely to dislike of deflation but also because it, alone, does not meet the problem. Our persistent deficit has important elements that make it far different from the early 20th century, both in genesis and in proper treatment. The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays on this account amount to about \$4.3 billion a year, and the impact on our balance of payments, even after netting receipts from sales of military goods to foreign countries, is about \$3.3 billion.

Our gross expenditures on tourism (including fares to foreign carriers) were about \$4 billion in 1967, and the world-wide net outflow on this account was around \$2 billion, with \$1¼ billion of this accruing to countries outside the Western Hemisphere. Our tourist outlay has been rising at an average rate of about 12 percent a year in the past ten years, a rate far in excess of the growth in the gross national product. This steeply rising trend is related to the growing number of people with higher incomes, and to various other factors, much more than to fluctuations in the current rate of expansion in our economy.

Our capital outflow has become very large and quite complex. In the early 20th century, we thought of capital investment as flowing from the more advanced countries to the developing countries. Today, our private capital outflow includes a substantial element of investment in countries already industrialized, in Europe, Japan, and elsewhere.

I have tried to demonstrate that the more complex characteristics of deficits in general, and of the United States in particular, require both domestic economic restraint and a selective attack upon particular items of deficit. I should add one further important point here. The January 1 program was designed to be a balanced program and one that would produce results quickly. The devaluation of sterling, the heavy pressures on the gold and foreign exchange markets,



and the sharp deterioration in a payments position in the last quarter of 1967 all underlined the need for strong action.

The January 1 program is designed to be a balanced program—balanced in three important aspects. There is balance between measures to restrain the domestic economy and avoid inflation and direct measures to improve particular segments of our international payments. There is balance between selective measures on capital and on current account. And, finally, there is balance in the selective measures' impact on the rest of the world. The program is deliberately designed to reduce the impact of adjustment on countries least able to bear it and to place most of that impact directly on countries in surplus and in strong reserve positions. And it is important to note that this selectivity is in favor of those parts of the world that should be favored—it is not selective for the advantage of the United States.

Right at this point, let me stress again the fact that it is vital to have more restraint on our domestic economy—vital both for our internal economic health and for our external accounts. An economy running as fast as the U.S. economy is running today is courting trouble in the future on the domestic front and in our international trade account.

In this connection, I want to point out that our foreign friends share this view. Contrary to some opinion I have seen expressed, this view from abroad does not represent a price to be charged for cooperation in helping to maintain stability in the international monetary system. On the contrary, our foreign friends see international monetary instability if the United States undergoes either sharp deflation or inflation. Their fear, which we share, is that an overheated U.S. economy will produce, in time, a badly deflated U.S. economy—a development that would hurt world economic growth as well as U.S. economic growth. They advocate—as we do—fiscal restraint in the United States and expansion of under-utilized capacities in European economies. Both actions will facilitate the smoother working of the adjustment process.

It is hard to appraise the results of the new program to date—partly because we will have nothing approaching definitive first quarter figures for another 5 weeks or 6 weeks and partly because the new program is not fully in force as yet. Most importantly, we do not yet have fiscal restraint—increased taxes and expenditure control—although prospects for action have improved substantially in the past two or three weeks. We do know that the trade account is not behaving as well as had been hoped—partly because of abnormally high imports of copper and steel, which reflect actual, or anticipated strikes, partly due to excessive economic growth, which induces imports in general.

The capital restraint programs—on direct investment and on financial institutions—appear to be working well. But, in the capital account area, two factors probably have worked against us in the first quarter—the gold crisis and the fact that special transactions in the first quarter of 1967 were quite large and were smaller in the first quarter of 1968. But our basic capital account trends seem to be quite favorable.

Work on reducing the net balance of payments drain on Government account is proceeding with every promise of success—particularly in the important area of further neutralization of the foreign exchange costs of our overseas military expenditures in Europe. We have not made equal progress on the travel and trade disadvantages sectors.

When the full program is in being and operative, I am sure it will lead to the goal set by the President on January 1—to bring our balance of payments “to or close to, equilibrium.”

Now let me turn to my third theme—which I characterized as *andante* and which moved abruptly into *scherzo*. It was *andante* in the sense that it has taken months and years to reach agreement on a new international reserve asset—the SDR; it became *scherzo* after the British devaluation and the gold rushes of last fall and this March.

I speak first of the gold situation, which, in the past three weeks, has undergone fundamental change—in fact, a change so fundamental I am not sure it has been fully understood. A little history may be useful at this point.

In the early post-World War II period, a free market for gold, without any gold pool operations, frequently saw prices well above \$35 per ounce, and, after 1952, moderate fluctuations both above and below \$35 per ounce. In 1960, there was an outbreak of the free market price on the up-side, following 3 years of massive U.S. payments deficits, and there were substantial conversions of dollars

into gold by foreign monetary authorities. In the fall of 1961, the now famous Gold Pool began to operate in order to stabilize the free market price. But, up to that time, there really was a monetary gold price and a free market price which could and did differ.

What seems to be overlooked in the history is that the Gold Pool operated on both sides of the market from late 1961 until it closed at mid-March 1968. The objectives were to smooth out market operations and to provide an orderly way for new gold to enter the monetary system.

These objectives of the Pool members were carried out very well for most of the life of the Pool. A number of crises—that of the Cuban missiles and the assassination of President Kennedy, to name but two—were rather easily surmounted, and, from its inception through the first 10 months of 1967, the Pool was a significant net buyer of gold.

The Pool operations showed a small favorable balance by the end of 1962, and there were large inflows in 1963 and 1964. In 1965, the gain was diminished, but the Pool remained on the credit side of the ledger. In 1966 and 1967, with one of the major supply factors—Russian sales—absent from the market, there was a moderate net outflow as conditions remained in fairly good balance with occasional speculative outbursts, such as that in June 1967, at the outbreak of hostilities in the Mid-East, at which time the Pool was still a net purchaser of over \$1 billion in gold.

During the period of Pool activity, there was an evolving awareness of the need for a major change in the international financial system. The long-run problem of providing for future international liquidity needs, as the supply of new gold for monetary reserves diminished and new dollar outflows were reduced through correction of the imbalance in the U.S. payments position, had been long recognized by monetary authorities. In the first instance, short-term credit facilities in the form of swaps and medium-term conditional credits through the enlargement of IMF quotas were set in place. Invaluable as these have proven in meeting individual crises of a reversible nature, they obviously do not meet the more fundamental long-term global liquidity problem. It was with the latter in mind that work progressed on the creation of a new reserve asset, which has come to be known as the SDR.

But, while steady, albeit slow, progress was being made on a plan for a new reserve asset, a series of events created uncertainties in the international monetary system. By far the greatest factor of instability was the weakness of sterling, which culminated in devaluation at mid-November, 1967. But the Middle East crisis and the return to large deficit by the United States in 1967 also added to uncertainty. Rumors, some inspired, some merely reflective of unease, swept through the markets—particularly after sterling devaluation. In this setting, a number of people became convinced that the price of gold would have to be increased, and free market gold sales rose to very large volume.

The immediate outbreaks in late November and in December were not unexpected, following the devaluation of a major currency, and the authorities hoped that a continued show of determination to hold the market, as well as the official, price of gold would restore stability and give time to set firmly in place the plan for the new reserve asset and thus demonstrate the greatly reduced reliance of the world's monetary system on gold.

However, there was further heavy loss of monetary gold by the Gold Pool members in March. Thus, it seemed that Pool action, rather than restoring stability, tended then to feed the speculative flames. A new course of action was indicated. But, also, the large speculative holdings of gold brought a new factor into the market which enabled the authorities, with more equanimity, to allow the free market price to seek its own level.

Certainly it would have been preferable if, as we had hoped, a more orderly evolution could have taken place following the actual adoption of the SDR agreement, without experiencing the speculative outbreak that did occur. The fact that it did occur does not, however, make less viable the move to free and separate the private gold markets from what might be termed the monetary gold market, composed of the existing stock of monetary gold.

Fortunately, the near conclusion of the agreement on SDR's enabled the Gold Pool members, in their Washington Communiqué of March 17, to state that "as the existing stock of monetary gold is sufficient, in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market." The successful outcome in Stockholm last

weekend underscored this position and removes much of the threat that a distinct free market price, whether above or below \$35 per ounce, could have previously had on the official monetary price.

The Stockholm Communique said "the Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the present official price of gold." It also said, "Moreover, they intend to strengthen the close cooperation between governments as well as between central banks to stabilize world monetary conditions."

Without a continued monetary demand for new gold, it will be interesting to see what does develop in the free markets. The amount of annual new production is far in excess of legitimate industrial needs for gold. This leaves ample room for a considerable volume of hoarding or savings in those countries whose populations have been historically attracted to gold as a store of value. Without speculative activity, the market would appear to have presently a supply potential somewhat greater than the hard-core demand. And this is without taking account of the present large overhang of gold in speculative hands.

The events so far have clearly disappointed those who felt that, in the absence of Pool support, the price would rise sharply and permit a quick and easy killing in the market. Nor can the price situation to date give comfort to those who have urged a doubling of the official price of gold.

One of the oddities I frequently encounter in the arguments of those who would have drastically increased the price of gold is that they profess fear of the inflationary potential in the controlled creation of reserves at a moderate rate but could view with apparent unconcern the inflationary consequences of a doubling of the price of gold which would add over \$40 billion of new liquidity at a single stroke. They apparently fail to realize that not only would a gold price increase have been the most inequitable and unsettling method of creating additional liquidity but that decisions by monetary authorities on gold price increases are no less manmade than the decisions on creation of a new reserve medium.

The new two-tier system has been characterized by some as a stopgap measure. I am not sure what is meant by this. If they mean that it doesn't solve all of our problems—most particularly the need to eliminate our balance of payments deficit—they are, of course, right. If, however, they mean that a two-tier gold system won't work, even with a well-operating adjustment process, to reduce our deficit and to reduce the surpluses of others, I disagree.

In conclusion, let me try to blend my three themes into a finale. The new arrangements on gold underline the stability of the \$35 price for monetary transactions. The prospective new SDR system will produce reserves as and when needed to supplement existing reserves—both the gold in the hands of monetary authorities and the foreign exchange they hold. This is a viable system.

But this, or any other system, can suffer shocks if the economies of major countries, and particularly the U.S. economy, get badly out of balance. There is nothing in the new monetary system that guarantees order in a world in basic disorder. So it is necessary to have a smooth adjustment process, and it is necessary to bring our own payments position into better balance. It is equally important to have growth abroad with price stability and an elimination of chronic surpluses.

The new American program should go a long way to achieve the goal. With cooperation—in the interests of themselves and the world—the chances of reaching that goal will be even more improved. And, with a better balanced but growing world economy, the new monetary system—built as it is on the solid foundations laid at Bretton Woods more than 20 years ago—should function well.

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Exhibit 53.—Remarks by Under Secretary for Monetary Affairs Deming, May 6, 1968, to the Istituto Nazionale per il Commercio Estero (ICE), Rome, Italy, on recent developments in the monetary system and international payments

I always regard myself as fortunate when my duties bring me to the city of Rome. This is not only because Rome has its own distinctive charm and traditions but also because of the fine relationships in the monetary field that we in the United States Treasury have with Minister Colombo, Governor Carli, and others in the Italian Government and the Bank of Italy.



For those gentlemen just named and for most of their colleagues in all countries, the last few months have been eventful ones.

From the middle of November, when the pound sterling was devalued, to the middle of March, when members of the Gold Pool took their decision to separate the private gold markets from what might be termed the monetary gold market, events in the foreign exchange markets demanded the continuing attention of monetary authorities.

A change in the value of a major world currency may always be expected to have a disturbing effect in exchange markets—and it came as no surprise when substantial speculation in gold began in November of last year. The authorities of the Gold Pool countries hoped that continued support for the free market price would restore stability and give time to set in place the plan for creation of Special Drawing Rights, which would clearly demonstrate the greatly reduced reliance of the world's monetary system on gold.

After two heavy runs in November and December, the gold market quieted down considerably in January and February, but speculation broke out again in March, and there was heavy loss of monetary gold by the Gold Pool members. At this point, it appeared that the Pool action in supplying gold to the market was tending to feed speculation, rather than restoring stability. A new course of action was indicated.

On March 17 of this year, Gold Pool members announced that, henceforth, officially held gold would be used only to effect transfers among monetary authorities. They decided no longer to supply gold to the London gold market or any other gold market. They added that "as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

This is an historic statement and reflects a major decision.

It is useful to see this decision in perspective. The Gold Pool began to operate in the fall of 1961 in order to stabilize free market prices for gold. Prior to that time, while the official monetary price for gold had not varied from the \$35 an ounce price established in 1934, free market prices for gold had fluctuated substantially. During the period of Gold Pool operations, the Pool operated on both sides of the market, and, in fact, bought more gold than it sold during the entire period up through the first 10 months of 1967.

The objectives of the Pool members—to smooth out market operations and to provide an orderly channel for new gold to enter the monetary system—were carried out very well for most of the life of the Pool. A number of crises—that of the Cuban missiles and the assassination of President Kennedy, to name but two—were rather easily surmounted. The Pool operations showed a small positive balance by the end of 1962, and there were large purchases by the Pool in 1963 and 1964. In 1965, the gain was much diminished, but the Pool remained on the credit side of the ledger. In 1966 and up to November 1967, with one of the major supply factors—Russian sales—absent from the market, there was a moderate net outflow. Conditions remained in fairly good balance with only occasional speculative outbursts, such as that in June 1967, at the outbreak of hostilities in the Mid-East. At mid-November, the Pool was still a net purchaser of over \$1 billion in gold over the period as a whole.

In the 4 months from mid-November 1967, to mid-March 1968, the Pool supplied \$3 billion to the London market in maintaining the free market price around \$35. As noted, by mid-March 1968, it became crystal clear that the classic method of meeting speculative runs was not working. Therefore, a new course was indicated—the course I have mentioned.

Now I believe it important to stress two points about the new gold policy.

1. *The new gold policy.*—In announcing the new gold policy in the Washington Communiqué, the Gold Pool countries invited the cooperation of other central banks. So far, most of the free world countries have expressed their willingness to cooperate.

At Stockholm, the Group of Ten Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold. They also said "they intend to strengthen the close cooperation between governments as well as central banks to stabilize world monetary conditions." This latter statement was agreed unanimously.

The amendment to the Articles of Agreement of the Fund, now in process of ratification, includes—along with the new SDR plan and certain changes in the

regular operations of the Fund—a change in procedure regarding the price of gold. This change—which raises the voting requirement for a change in the official price of gold by the Fund from a simple majority to 85 percent—will make it more difficult to change the official price of gold.

The United States continues to buy and sell gold at the existing price of \$35 an ounce in transactions with monetary authorities. But, as agreed by all Gold Pool countries and expressed in the Washington Communique, no Gold Pool country, including the United States, will sell gold to monetary authorities to replace gold sold in the private market.

Taken all together, this means an overwhelming official belief that the present official price of gold should not, and will not, be changed and a determination to keep the monetary gold stock separate from the commodity market for gold.

2. *The supply-demand picture.*—Central bank demand has been removed from the market. Industrial and artistic demand is only half of new Free World supply. The big speculative runs have produced a big overhang of gold in the hands of those who expected a rise in the official price of gold. The free market price of gold has risen far less than speculators hoped, and far less than those who advocated an official price increase had suggested. I suggest that these factors make for downward pressure on the free market price of gold, rather than upward pressure.

During the years of Pool activity, there was an evolving awareness of the need for a major change in the international financial system. The long-run problem of providing for future international liquidity needs, as the supply of new gold for monetary reserves diminished and new dollar outflows were reduced through correction of the imbalance in the U.S. payments position, had long been recognized by monetary authorities.

In the first instance, short-term credit facilities in the form of swaps and medium term conditional credits through the enlargement of IMF quotas were set in place. Invaluable as these have proved, they obviously do not meet the more fundamental long-term global liquidity problem. It was with the latter in mind that work went on for a number of years on the question of creating a new reserve asset which could supplement gold and foreign exchange in the monetary reserves of the nations of the world.

With restoration of more orderly conditions in the foreign exchange markets, monetary authorities are now able to concentrate once again on the two basic problems that have been the focus of international monetary cooperation. These are the establishment of a facility for assuring adequate world liquidity and the development of better adjustment in international payments.

### The Special Drawing Rights Facility

Just 2 weeks ago, on April 22, the International Monetary Fund released the text of a Proposed Amendment to the Articles of Agreement of the International Monetary Fund. This Amendment provides for establishing machinery within the IMF to create Special Drawing Rights (SDR) by the conscious decision of the world's monetary authorities.

This brings close to fruition 5 years of intensive work on this subject. The work was initiated in the fall of 1963 by the Group of Ten leading industrial countries that had banded together in 1961 and 1962 to strengthen the monetary system by providing additional credit lines to the International Monetary Fund.

The Ministers and Governors of the Group of Ten asked their Deputies to investigate the need for some new form of reserves. The Deputies met frequently in 1963 and 1964 and made the first analysis of the problem and its main elements.

In the following year, a special study group of technical experts was established by the Deputies under the Chairmanship of Rinaldo Ossola of the Bank of Italy. This group produced, in June 1965, a very thorough analytical survey of the various techniques by which it would be possible to create reserves deliberately by multilateral decisions. They pointed out that it was quite possible to create reserves in various ways and that the technical problem could be handled relatively easily. The major questions that needed to be resolved were policy and political questions. Was there a willingness to proceed with negotiations on the part of the governments and central banks of the Group of Ten?

At this juncture, Secretary Fowler was given authority by President Johnson to indicate that the United States was prepared to proceed to negotiate at

the political level. The Secretary visited a number of countries in Europe to explore the possibility of establishing a contingency plan under which reserves could be created as and when needed. He found, in Europe and among other members of the Group of Ten, a readiness to proceed to actual negotiations. From that time, 2 years elapsed before an Outline Plan for Special Drawing Rights in the IMF was approved last September by the Annual Meeting of the Governors of the Fund in Rio de Janeiro.

Throughout these negotiations, Minister Colombo, Governor Carli, Mr. Ossola, and Mr. Rota have consistently maintained their faith in the concept of a multilateral reserve asset. With the help of their determination, thorough grasp of the subject, and persistently constructive leadership, we have achieved the present result.

After the Outline Plan was approved at Rio de Janeiro, certain remaining issues among the Group of Ten were resolved in Stockholm at the end of last March. The Executive Board of the Fund has now hammered out the full text of the necessary Amendment to the Articles, which can now be put to governments.

In the United States, we have already placed the proposal before our Congress. It is our hope that there will be early ratification by the members of the Fund. When President Johnson submitted the necessary legislation to the U.S. Congress a week ago, he said: "I urge the Congress to cast a vote for a stronger world economy by approving the historic Special Drawing Rights legislation I submit today."

What is the Special Drawing Right facility expected to do and what will it not do? It is not, in any sense, a panacea for all our international monetary and financial problems, but it does deal with a highly important aspect of this complex of thorny questions. What the Special Drawing Right does is to provide a permanent supplementary reserve asset, which can be created in amounts that will be consciously determined by a collective judgment of the participants in the facility. This judgment must be a very broad consensus, because no Special Drawing Rights will be allocated unless their creation is approved by 85 percent of the weighted votes of the participants.

With this facility, the world will no longer be dependent upon gold or upon the deficits of reserve centers for the provision of the growth in world reserves which will be needed.

Countries need additional reserves just as corporations need to expand their working capital as the total size of their business grows. World trade has been rising, as measured by imports, by more than 7 percent a year since 1950. Despite a substantial growth in reserves, global reserves today are smaller in relation to the world's imports than they were in 1954. This is true even if we exclude the United States, whose reserves have gone down by a very large amount. In 1954, the reserves of the Free World, excluding the United States, corresponded to 45 percent of annual imports. In 1967, this figure was down to 34 percent of annual imports. In concrete terms, this means that these countries today hold, on the average, reserves equal to about 4 months imports.

There is no necessary fixed ratio between expanding trade and rising reserves. Nevertheless, rising world trade requires rising world reserves. The trading world would feel the pinch, and probably feel it fairly quickly, if reserves were to level off at the present figure of about \$73 billion. When there is no overall growth in reserves, no country can gain reserves without forcing a reduction in reserves of someone else. Such a situation would lead to a constant tightening of international credit by countries seeking to protect their existing reserves or to enlarge them. It would strengthen tendencies to restrict trade and investment flows in order to preserve existing reserves. The trend of global reserves is an important determinant of world trade, just as internally the trend in the total reserves of the banking system is an important factor influencing the rate of growth.

We look forward to careful and conservative management in the creation and use of the new Special Drawing Rights. World reserves have increased, on the average, between 2 and 3 percent per year over the past 17 years. With no additions to the monetary gold stock, as expected under the new gold policy, and a reduction in the U.S. balance of payments deficit, new reserve growth would be almost completely dependent on SDR creation. That would mean that a modest and conservative approach to the volume of SDR creation over the first 5-year period would be somewhere between \$1.5 and \$2.2 billion. Obviously, this is not a forecast; the collective judgment of all IMF members will determine the exact amount of new reserve creation.



What is important to note is that reserve creation of this magnitude will not relieve any country of the need to keep its payments position in general overall balance, nor is it intended to do so.

The United States has the biggest quota in the Fund. A \$2 billion creation of SDR would mean a U.S. allocation of about \$500 million—only equivalent to one-sixth of the reduction we are seeking this year in our balance of payments deficit. For the EEC, the equivalent allocation would be about \$360 million—far less than the \$1.5 billion surplus registered by the EEC in 1967.

Most of the advantage of SDR creation to exporters will lie in the broad effect of the new reserve instrument—in the avoidance of contractionary measures. As reserves are building up in the countries of the world, we can hope for a more liberal approach to interest rate policies and trade measures in the world as a whole. This should benefit the exporter through maintaining the rate of growth in world trade which we have experienced for so many years. Without a source of new reserves, this great forward surge of international trade and international investment could be replaced by a much more limited and gradual growth pattern, or even by stagnation.

Looking back over the last few years, I believe we can take great satisfaction in the extent to which international cooperation has contributed to strengthening the international financial system which has supported an expansion of international trade and investment without parallel in modern history. In this same atmosphere of cooperation, monetary authorities, working together in the International Monetary Fund and in the Group of Ten, have prepared the framework for the creation and allocation of Special Drawing Rights to ensure the adequacy of global reserves in the future.

#### **The problem of balance of payments adjustment**

It is not yet clear whether we have made equal progress in what I have called the other basic problem of international cooperation—that is, in improving the working of the balance of payments adjustment process. Deficits in the United States balance of payments have extended over a long period, despite general recognition that such deficits are no longer desirable and despite ever broader programs on the part of the United States to correct them. Persistent surpluses in Continental Western Europe have continued longer than necessary or desirable.

Fortunately, however, this problem has been the subject of long and detailed examination. The fruits of that examination may prove of great value to all of us in the near future. The Group of Ten requested Working Party 3 of the OECD to examine ways in which international cooperation could lead to more rapid and more satisfactory elimination of persistent deficits and persistent surpluses in international payments. The resulting report, "The Balance of Payments Adjustment Process," was presented in July, 1966. It represents a substantial advance in international understanding of the intricacies of the problem.

I wish to call your attention to only one of the simplest conclusions reached. That is, that every major payments imbalance has two sides. If one abstracts from the input of new monetary reserves into the world's monetary system, the deficit of one country, or group of countries, will have its counterpart in the surplus of another country, or group of countries. Adjustments, therefore, must be made and permitted by both groups—deficit countries and surplus countries—to eliminate their respective imbalances, if a healthy world economy is to be maintained.

Let me illustrate that point graphically by a brief recital of U.S. balance of payments history.

In the 17 years from 1941 through 1957, the United States had a cumulative surplus on trade and service account of \$85 billion, or \$5 billion per year, on the average. I do not include military transactions or investment income in this figure; I do include exports financed by Government—a positive figure—and pensions and remittances—a negative figure. Capital movements in that period gave us a plus of \$17 billion, or \$1 billion per year, on the average. That figure includes income flows, that is, repatriated earnings on investments and loans and fees and royalties—both private and Government—net capital transactions of foreigners, and errors and omissions. On Government and military account, which includes sales of military goods and services and Government loan repayments—in other words, it is net—we had a deficit of \$112 billion, or \$6.6 billion per year, on the average. Between 1946 and 1957, we extended economic assistance in grants and loans of \$42 billion net.

The net effect of these results was a cumulative deficit in our payments balance of less than \$10 billion, or an annual average of less than \$600 million. And we gained gold; our gold reserve at the close of 1957 was larger than at the beginning of 1941.

What that means, of course, is that we financed our deficit completely—and more—by increasing our dollar liabilities to official and private holders. In a world starved for reserves, the dollar was better than gold.

Throughout this period, the United States was in fundamental surplus, but, through its deliberate policy of massive untied grant and loan assistance and its absorption of most of the costs of insuring free world security, we incurred balance of payments deficits. With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a unilateral adjustment process that benefitted the world and, in so doing, helped both the world and itself. In that process, we permitted disadvantage to our trade, encouraged tourists to go abroad and make substantial purchases there, and we tried to increase our foreign investment.

This was a good habit—it encouraged world trade and world economic growth. But it had two unfortunate results. First, it was carried on too long after basic conditions changed. The deficits got larger and had to be financed both with increased dollar outflows and a reduction of \$11 billion in our gold reserves from 1958 through 1967. Second, it got some of the rest of the world—particularly Western Europe—into the bad habit of enjoying chronic surpluses, even after its international reserves had been rebuilt. The net result was that both the United States and the world got worried about the big American deficits, but it took some time for worry to be expressed about the big European surpluses. And, as noted, it is impossible to eliminate or reduce deficits without effecting reduction in surpluses.

From 1958 through 1967, we had a cumulative deficit of \$27 billion, or \$2.7 billion annual average—more than four times the average of the previous 17 years. We reduced our Government and military account deficit to \$5.5 billion per year on the average. That is still a big figure; after mid-1965, it was, of course, affected by Vietnam.

On capital account—again I include the income flows—we stayed about the same. Capital outflows—direct investment, portfolio and bank loans—rose sharply; enough so that the steadily rising income just about—not quite—kept it in the same position as in the previous 17 years on the average. But this occurred only after the outflow had been somewhat contained and only after various special transactions.

The trade and service surplus dropped sharply—to less than \$2 billion per year on the average. Exports grew, but, particularly in later years, imports grew faster. And we had a rapidly increasing deficit on tourist account.

Now I come back to the adjustment process theme. Efforts are now underway to give concrete significance to the principle that deficits cannot be reduced unless surpluses are reduced. The possibility of acceleration of Kennedy Round tariff cuts on the part of surplus countries is one example. The usefulness of such moves depends, however, on their significance in trade terms and on the assurance that they will be applied.

Another is the attention now being given to differences in national tax policies, as these are reflected in tax rebates on exports and compensating taxes on imports—what we call the “border tax” issue. In the first place, it appears to the United States that recent and prospective changes in tax policies in several European countries may work against the trade adjustments now necessary to restore international equilibrium, and, in the second place, we think the underlying GATT rules would benefit from a new scrutiny.

I would be remiss, however, if I did not take a moment to acknowledge the contribution made by the Italian authorities to international payments adjustment efforts. Despite the well-known and much scrutinized structural problems of Italy, the growth rate of the Italian economy in the past 2 years has exceeded the average target set in the 1966–70 Development Program—while growth rates in many of Italy’s neighbors fell. This commendable performance was accomplished with only moderate price increases. Furthermore, wise demand management made the expansion possible even though the external stimulus, especially in 1967, was not at the same level as in some previous years. Your distinguished Minister of the Treasury, Mr. Colombo, has said that this performance will con-

tinue in 1968, despite any adverse impact from the recent U.S. and U.K. measures, even if this should mean a decline in Italy's official reserves. This statement represents, I believe, the best spirit of international economic cooperation.

But I wish to talk now about the U.S. responsibility to bring its balance of payments into equilibrium. Of the requirements for better adjustment of payments imbalances today, in my mind—as probably in yours—there is no doubt that the first priority must be given to the adoption of a program of domestic demand restraint in the United States.

Just before I left Washington, Secretary Fowler made a very strong appeal for public and business support for the tax surcharge which the President and the Administration have requested the Congress to impose. He said, in part:

“\* \* \* in the last 6 months, a sharp increase in our balance of payments deficit has been accompanied by a serious deterioration in our trade surplus, resulting from an economy that is growing at too fast a rate of speed, growth that is accompanied by an unacceptable rate of inflation, a wage-price upward spiral, and work stoppages, real or threatened, affecting key sectors of foreign trade.”

The tax increase is only one of the measures we are seeking to bring about a general cooling down of the U.S. economy. An appreciable cut in Government expenditures is expected to be associated with the tax increase legislation. The discount rate of the Federal Reserve banks was raised to 5½ percent last month, the highest discount rate since 1929. The President has directed the appropriate officials of our Government to work with labor and industry to avoid inflationary wage-price decisions and crippling work stoppages, real or threatened, that would induce increased imports or interfere with exports.

I am most hopeful we will shortly put in place an appropriate mix of fiscal and monetary measures to bring the growth rate in the U.S. economy back to a sustainable level.

The question is sometimes asked—particularly in Europe—whether that is not all that is required to bring about a correction in the U.S. balance of payments position. The answer is clearly no; it is not enough. The United States must also continue to apply a number of selective measures to curtail adverse balance of payments pressures in various areas.

There are two primary reasons for this answer. First, balance of payments problems are more complex today than they were in the earlier years of this century. Second, we have learned that too much deflation may cure a payments deficit but may end by killing the patient and passing on the disease to all of his relatives—his trading partners.

It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Sharp deflation as a policy simply is not acceptable today in any country—or in the world.

In an earlier day, at least in theory, balance of payments deficits generally occurred when a country's economic pace was too fast relative to its resources and relative to growth in other major industrial and financial centers. The country with an inflationary boom began to have rising prices; its exports fell and its imports rose. The direct effect was a reduced trade surplus. The cure was to deflate the economy, or, at least, dampen the inflation. And this was usually accompanied by general tightening of credit and rising interest rates that accentuated the deflation in the economy over time. Moreover, in the short run, these rising interest rates tended to stimulate borrowing abroad and to attract foreign capital in an equilibrating manner.

I have noted that a policy involving sharp deflation is no longer acceptable. But this is due not merely to dislike of deflation but also because it, alone, does not meet the problem. Our persistent deficit has important elements that make it far different from the early 20th century, both in genesis and in proper treatment.

The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays on this account amount to about \$4.3 billion a year, and the impact on our balance of payments, even after netting receipts from sales of military goods to foreign countries, is about \$3.3 billion.

In this connection, let me make an important point. I referred earlier to international monetary cooperation. The establishment and evolution of the IMF, the ever closer cooperation of the big central banks, the Group of Ten, and the recent agreements at Washington and Stockholm all testify to growing and working



cooperative arrangements—financial arrangements in a political setting in the sense that governments are involved. Monetary cooperation has become steadily more international in outlook. It has not transcended national interests; it has recognized that national interest—at least in finance—may be best served by international cooperation. In other words, it has recognized the realities of interdependence.

The NATO alliance needs a more solid underpinning of finance than it now has.

The principle that foreign exchange costs incurred in common defense—the foreign exchange costs of NATO security—should be neutralized is generally accepted, but it needs to be implemented in practice. Surely this is not beyond our imagination and ability. We need to work out better, practical, financial arrangements, so that the problem of meeting foreign exchange costs incurred for common security reasons does not undercut the basic security requirement.

Our gross expenditures on tourism (including fares to foreign carriers) were about \$4 billion in 1967, and the worldwide net outflow on this account was around \$2 billion, with \$1¼ billion of this accruing to countries outside the Western Hemisphere. Our tourist outlay has been rising at an average rate of about 12 percent a year in the past 10 years, a rate far in excess of the growth in the gross national product. This steeply rising trend is related to the growing number of people with higher incomes, and to various other factors, much more than to fluctuations in the current rate of expansion in our economy.

Our capital outflow has become very large and quite complex. In the early 20th century, we thought of capital investment as flowing from the more advanced countries to the developing countries. Today, our private capital outflow includes a substantial element of investment in countries already industrialized—in Europe, Japan, and elsewhere.

I have tried to demonstrate that the more complex characteristics of deficits in general, and of the United States in particular, require both domestic economic restraint and a selective attack upon particular items of deficit.

### Conclusion

The outlook before us is certainly not one bereft of problems. The effective functioning of the monetary system will continue to require cooperation in all three areas—short-term market developments, assuring an adequate secular growth in reserves, and achieving a better balance in international payments. Nevertheless, we have emerged from a severe and trying 6 months with the monetary system battered but basically intact and with substantial progress in two directions. We have broken the connection between the private gold market, with its high degree of susceptibility to exaggerated speculation, and official monetary transactions in gold at the official price. We have established a two-tiered system for gold which may well endure for a number of years.

Secondly, we are on the verge of formal ratification of the Special Drawing Rights system, which will declare our independence from gold in meeting the long-run needs for rising levels of international monetary reserves. Thus, while we have not emerged unscathed from a difficult time, we can survey the future with confidence that international cooperation among monetary authorities has passed through a very difficult 6 months in an extremely creditable fashion.

It is my hope that the next few months will see progress made in the third field of reducing the U.S. deficit and the European surplus. I can say that the balance of payments position of the United States in the first quarter of 1968 seems likely to show a considerable improvement over the fourth quarter of 1967, which was extremely bad. When the firm figures become available, they will, I believe, make a fairly creditable showing. Preliminary indications are that we have cut the fourth quarter deficit by two-thirds and are roughly in line with results of the first quarter of 1967. This has occurred in spite of the serious further deterioration during the first quarter in our trade accounts and the great monetary crisis of March. In fact, had we been able to hold even the modest trade surplus of a year ago, our first quarter results would be close to equilibrium. I can assure you that the Administration is bending every effort to bring our inflationary pressures under control, so as to arrest the deterioration that we have suffered in our trade accounts.

If we can achieve progress in reducing international imbalance during the remainder of the year, the year 1968 will, indeed, despite its inauspicious beginning, prove to be a crucial turning point in all three areas that I have discussed here tonight.

Exhibit 54.—Remarks by Under Secretary for Monetary Affairs Deming, June 17, 1968, at the Sixth International Program of the Instituto de Estudios Superiores de la Empresa Universidad de Navarra, Barcelona, Spain

This lecture is divided into three parts—not mutually exclusive—in which I consider:

1. Cyclical or short-term balance of payments adjustment, with particular reference to the United States.
2. Secular or longer-term problems of the U.S. international payments position, with particular reference to the scope for capital investment.
3. The relationship between adequate growth in international reserves and international investment.

#### I

First, let us look at the short-run balance of payments adjustment problem. This is the area on which most current attention centers. Here, I believe, two important points should be made.

Point 1 is a very simple one. Every major payments imbalance has two sides. If one abstracts from the input of new monetary reserves into the world's monetary system, the deficit of one country or group of countries will have its counterpart in the surplus of another country or group of countries. Adjustments, therefore, must be made and permitted by both groups—deficit countries and surplus countries—to eliminate their respective imbalances, if a healthy world economy is to be maintained.

Point 2 is that the adjustment process in today's world is a more complex process than it was in the earlier years of this century, and, in many cases, adjustment cannot be achieved satisfactorily solely by the application of broad and general economic policies. There are two primary reasons for this.

One is that the sharp deflationary policies are no longer acceptable—either on political or economic grounds. Even assuming that sharp deflation may conceivably cure a payments deficit, it may so depress the deficit country's economy that it is unacceptable as a domestic policy and has adverse economic effects on the country's trading partners and, consequently, is unacceptable to them also. It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Such a policy is not acceptable today in any country or in the world.

The second reason is that—at least in many cases—broad and general deflationary policies can not completely cure a deficit, because important elements in the imbalance are not much affected by such policies. I want to make quite clear that proper fiscal and monetary policies are still the most important elements in achieving both domestic and international payments stability. My point is that, in the modern world, they often need supplementary help to achieve balance of payments equilibrium. In other words, these policies are vital but not necessarily sufficient to do the job.

Let me illustrate by considering the United States. In the United States, general fiscal and monetary restraints appear to have much greater impact on the balance of payments when their effect is to dampen a cyclical boom than when they are applied to stimulate an economy which has much unused capacity. Imports appear to be much more sensitive to a rise in GNP at a rate exceeding 6 percent in monetary terms and much less sensitive when GNP is growing more slowly. Exports show less sensitivity to the domestic growth rate, appearing to be mainly influenced in the short-run by the level of activity in foreign markets.

In the United States, general policies of fiscal and monetary restraint are badly needed on both domestic and external grounds. Since late last year, monetary policy has moved, by successive stages, to a much more restraining posture. The accompanying fiscal restraint has, unfortunately, been conspicuous by its absence. But there is now reasonable certainty that the long sought congressional approval of a tax increase and expenditure cuts will soon be forthcoming. The favorable impact of the scheduled fiscal measures on the domestic economy and our balance of payments should be clearly registered during the second half of this year—and in 1969.

From a domestic standpoint, the fiscal restraint will be welcome, indeed. In the first quarter of this year, GNP grew at an unsustainably rapid annual rate of 10 percent. Too much of this fast advance is being reflected in rising costs and prices. Fiscal restraint will hold the advance of the economy to a much safer, less

inflationary, pace. Without fiscal restraint, the Federal budget deficit on the new, unified basis would exceed \$20 billion next fiscal year—for the second time in a row. With fiscal restraint, the deficit will shrink rapidly.

The U.S. economy and the financial markets have been under considerable strain. For example, unemployment rates, while still too high for some disadvantaged groups, are very low by historical standards in some key categories. In the financial markets, some interest rates have reached levels not experienced in the United States for many decades. In such a situation, the persistence of large Federal budget deficits is clearly inappropriate, and the long sought application of fiscal restraint will place the economy's advance on a much sounder basis.

We are in the process of learning how to use fiscal policy more effectively. It is already evident that the use of fiscal policy must allow for political tolerances that can seriously affect both the scope and timing of fiscal action. It is a powerful tool of cyclical policy but not, perhaps, as flexible as may have been assumed by some. This seems to be particularly true when it is to be applied as a restraining factor rather than a stimulus.

Over the longer run, the effects of general economic policies certainly will be felt in the trend of costs and prices. The competitive position may be impaired in a lasting way if costs and prices rise faster than in competing areas. Controlling inflation for some countries seems to be as difficult as dieting. Progress is painful and slow, a brief lapse can quickly lose the progress made by long periods of discipline. For other countries, the reverse seems to be true. They put on weight only by gross indulgence and quickly drop it by a return to a normal diet.

Something like this distinction seems to prevail in the balance of payments field. We have had some persistent deficit countries that have had recurrent inflationary problems, and we have had persistent surplus countries.

Important as fiscal and monetary policies are to promote sustainable economic growth with price stability and to help achieve balance of payments equilibrium, there are some important aspects of the U.S. deficit that are not influenced much by such policies. Thus, we have turned to some selective measures. Similarly, surplus countries have found it necessary to employ new and selective measures to help their adjustment.

Let me cite three important areas where general policies have little or no effect on payments imbalances—military expenditures, tourism, and some capital flows.

The gross foreign exchange costs of U.S. military expenditures now run about \$4.5 billion a year. Even abstracting from Vietnam, these gross foreign exchange costs—incurred largely as the U.S. contribution to the common defense of the free world—run approximately \$3 billion per year. On a net basis—after allowance for sales of military equipment to our allies and other neutralizing measures and not counting Vietnam—they have run between \$1.5 billion and \$2 billion per year.

This heavy drain on our balance of payments is in no sense susceptible to reduction through the application of general fiscal and monetary policies. Nor is it influenced by selective economic policies. Here the solution must be found in international cooperation. Thus, in the NATO Alliance, for example, the principle that foreign exchange costs of common security should be effectively neutralized needs to be implemented in more effective ways.

Our gross expenditures on tourism (including fares to foreign carriers) were about \$4 billion in 1967, and our net outpayments, after allowing for tourist receipts, were around \$2 billion. The foreign expenditures of our tourists have been rising at an average rate of nearly 10 percent a year for the past 10 years. This steeply rising trend is related to the growing number of people with higher monetary incomes and to various other causes and would not be appreciably reduced by a slowdown in the general rate of economic expansion in the economy. Here we have used some mild special measures, but look over the long pull toward increasing our tourist receipts rather than reducing our tourist expenditures.

A third important factor is the flow of capital investment from the United States to industrialized countries in Europe, Japan, and elsewhere. Earlier in this century, economists thought of capital investment as flowing from advanced countries to developing countries, largely in the form of goods, rather than money. But, today, we have a tendency for capital to flow in growing volume to Western Europe, without a corresponding outflow of goods and services from the United States.



We have tried to deal with this area through some selective devices—the interest equalization tax and the Department of Commerce program on direct investment, and the Federal Reserve programs dealing with banks and nonbank financial institutions.

On the whole, these programs have worked well—they have not stopped capital outflow; that was not their purpose. They have, however, reduced the rate of increase and, thereby, reduced the problem for the time being. They also have had the positive effect of stimulating the growth of European capital markets, which now provide more funds for foreign borrowers than they did in the past.

It is hard to say whether or not the selective U.S. programs have had the tendency to raise interest rates abroad. This is partly because European countries, in the past 2 years or so, have been running economies with some slack, and their domestic monetary policies have tended to ease—which is responsible conduct for surplus countries. It is partly because selective policies followed by European central banks have diverted funds from capital inflow back toward international money markets. These steps have eased liquidity and tended to lower interest rates in international markets without further easing in domestic markets. They probably have led to some domestic borrowers going abroad for funds and perhaps have diverted some short-term funds into long-term capital market channels.

## II

I turn now to the second area I wish to discuss—the longer term aspect of the U.S. international payments position. Here I want to take two perspectives—a very broad and long-term one for the period 1941 through 1967, and a more detailed and medium-term one for the last 6 years, 1961–67.

In the broad and long-term overview I combine all of the balance of payments flows into three broad accounts. First, is the trade and service account. Here I exclude military transactions and investment income, but I include exports financed by Government and pensions and remittances. Second, is the capital account which includes capital outflows, net capital transactions of foreigners and errors and omissions and also includes income flows—normally included in the service account—repatriated earnings on investments and loans, both private and Government, and fees and royalties. Third, is the Government and military account which includes sales of military goods and services and Government loan repayments—in other words, it is net.

For the 17 years from 1941 through 1957, the United States had a cumulative surplus on trade and service account of \$85 billion, or \$5 billion per year. Capital and income investments in that period gave us a plus of \$17 billion, or \$1 billion per year, on the average. On Government and military account we had a cumulative deficit of \$112 billion, or \$6.6 billion per year, on the average. Between 1946 and 1957, we extended economic assistance in grants and loans of \$42 billion net.

The net effect of these results was a cumulative deficit in our payments balance of less than \$10 billion, or an annual average of less than \$600 million. And we gained gold reserves—at the close of 1957 our gold reserve was larger than at the beginning of 1941. We financed our small deficit completely—and more—by increasing our dollar liabilities to foreign official and private holders.

Throughout this period, the United States was in fundamental surplus, but, through its deliberate policy of massive untied grant and loan assistance and its absorption of most of the costs of insuring free world security, we incurred minor balance of payments deficits.

This was enlightened policy—it encouraged world trade and economic growth. But it had two unfortunate results. It was carried on too long after basic conditions had changed. The deficits got larger and had to be financed both with increased dollar outflows and a reduction of \$11 billion in our gold reserves from 1958 through 1967. Also, it got some of the rest of the world—particularly Western Europe—into the bad habit of enjoying chronic surpluses, even after Europe's reserves had been rebuilt. The net result was that both the United States and the world got worried about the American deficits, but it took some time for worry to be expressed about the big European surpluses.

From 1958 through 1967, the United States had a cumulative deficit of \$27 billion, or \$2.7 billion annual average—more than four times the average of the previous 17 years. The Government and military account deficit was reduced to \$5.5 billion per year, on the average. That is still a big figure; after mid-1965, it was, of course, affected by Vietnam.

On capital account we stayed about the same—\$1 billion surplus per year on the average. Capital outflows—direct investment, portfolio and bank loans—rose sharply; enough so that the steadily rising income factor just about—not quite—kept it in about the same position as in the previous 17 years. But this occurred only after the outflow had been somewhat contained and only after various special transactions.

The big difference is found in the trade and service account. The surplus dropped sharply—to less than \$2 billion per year, on the average. Exports grew, but, particularly in later years—imports grew faster. And we had a rapidly increasing deficit on tourist account.

Now, let us take another fix—medium-term on the U.S. balance of payments. Table I below gives somewhat more detail for the years 1961 and 1967 and shows the net change between them. The data are arranged in somewhat more conventional fashion, with the top half of the table showing essentially the current account and the bottom half the capital flows.

I want to concentrate first on lines 2 through 5—net investment income, net services (other than military), net military account and Government grants and credits.

Government grants and credits, net (line 5) grew from \$2.8 billion to \$4.3 billion over the 6 years. But almost half of the increase was mainly statistical—there were big debt prepayments in 1961 and virtually none in 1967. Adjusting for this, the adverse change was about \$762 million or 22 percent. Items in this account include, among others, AID disbursements and drawdowns of Export-Import Bank credits. Some \$400 million of the increase is represented by Export-Import Bank loans outstanding. A very large part of the AID disbursements were transferred in kind, in the form of goods and services, thus equaling and offsetting a corresponding amount of exports.

The services account (line 3) which excludes investment income and fees and royalties, but includes pensions and remittances, shows a net outpayment of \$1.5 billion in 1961 and \$2.6 billion in 1967, an adverse change of \$1.1 billion or 73 percent. This account is heavily influenced by tourist expenditures, which, as noted earlier, cost us, net, in 1967 about \$2 billion.

The third account, net investment income (line 2) includes fees and royalties, but also net outpayments of interest and other income to foreigners on their private and public investments in the United States. Here the figures are positive and the trend advantageous to the United States. In 1961, the net receipts were \$3.4 billion, and in 1967, they were \$5.6 billion, a gain of 66 percent.

The military account, net (line 4), shows a deterioration of \$700 million over the 6 years—from an outflow of \$2.6 billion in 1961 to one of \$3.3 billion in 1967.

The bottom half of the table shows capital flows. Line 7 shows the capital flows net of "official capital inflow," and line 8 includes such capital inflow. The difference represents mainly investment of official reserves in nonliquid form in the United States. Part of this figure reflects military neutralization financial transactions, part represents the pull of high interest rates on such investments. Even excluding these investments, it is evident that there was some reduction in capital outflow from 1961 to 1967, reflecting primarily selective capital measures—the interest equalization tax and the direct investment and financial institutions control programs of the Department of Commerce and the Federal Reserve.

Finally, the first line in the table shows the trade account and its deterioration between 1961 and 1967. Now, let us pull some conclusions out of these figures.

(1) The rise in investment income more than offset the declines in nonmilitary services and Government grants and capital, if allowance is made for the special debt prepayments of 1961. These three accounts combined showed a net gain of \$400 million from 1961 to 1967. Certainly it is not unduly optimistic to expect further improvements over the future.

(2) It also is not unduly optimistic to conclude that the net military account should improve over the next few years. Gross expenditures should be reduced when peace comes to Vietnam. And net outflow should be reduced as we and our allies move forward to implement the accepted principle that foreign exchange costs of common defense efforts should be neutralized.

(3) Real effort must be made to improve the trade account. Gains here can be translated into rising capital exports—deterioration in the trade account almost automatically leads to capital curbs.

(4) Capital inflow from abroad can be an important factor in contributing to balance of payments equilibrium for the United States and in permitting additional capital exports from the United States. The role of the United States as a financial intermediary needs further exploration.

The detailed examination of the recent 6-year period tends to confirm the broad conclusion to be drawn from the long-term picture. The U.S. payments position is strong when its trade position is strong. Without a trade position stronger than that of 1967, the United States would have no margin of real resources to use in net capital exports.

### III

I come now to the last part of my remarks—the relationship between the growth of international reserves and the flow of international investment over the longer run.

In a sense, one may think of countries as investing part of their national savings in reserves, when they acquire growing amounts of gold and foreign exchange. Resources in goods or securities are being spent to acquire reserves rather than investments abroad or a larger volume of imports.

Almost continuously since 1950 the industrial countries of Continental Western Europe have invested substantial amounts in additions to their reserves. Between 1950 and 1967 the European Community countries added an average of \$1.3 billion to their reserves annually. This is equivalent to 92 percent of the growth in world reserves in that period. Between 1961 and 1967, additions to reserves by this group of countries averaged \$1.4 billion, or about 1 percent of the average increase in their combined Gross National Product.

But even with the investment of considerable amounts in reserves, reserve growth in the European industrial countries in the last 10 years has fallen short of expansion in their international trade. And since 1962, in these countries, reserves have declined in relation to GNP.

These facts give rise to several interesting questions. What has determined the proportion of the current account surpluses going into reserves as against capital investment in other countries? Will there be continuing need for reserve additions in Europe at about the previous rate, or at some lower rate? Are the Common Market countries now finding alternative uses for their foreign exchange receipts in capital outflow and will they in the future channel smaller amounts into additions to reserves? If so, what does this signify as to the future pattern of international investment?

A look at what has been happening in the EC countries is instructive. I have attached a table to these remarks showing current surpluses, net capital flow, and overall balances of payments in recent years, 1961–67. The table also shows the percentage increase in official reserves in each of the years 1961–67.

Apart from 1962, when a high level of debt prepayments combined with a declining current account surplus to hold down the increase, the annual rise in official reserves of these countries ranged but narrowly between \$1.3 billion and \$1.9 billion. These fairly regular increases in reserves were achieved in a period when the current account position varied by some \$4½ billion, and the capital account balances by about the same amount.

The table seems to indicate a relative preference for reserve increases as against capital exports—investments—even in the face of some capital inflows that were represented as unwelcome. Note that the period 1961–65 was characterized by persistent net capital inflows—moderate in 1961–63 and substantial in 1964–65.

In 1966–67 there was a marked shift—the Six invested substantially more abroad than they received in capital inflow. The turnabout in the period was due to the convergence of a number of factors. Undoubtedly the most important was the series of measures taken to slow down capital outflows from the United States. The period since mid-1963 and particularly since the February 1965 program of the United States has been one of increasingly stronger actions of this type. A related development has been the rapid growth of the Euro-bond market from about \$0.5 billion as recently as 1963 to \$2 billion plus last year. While the identity of purchasers of securities in that market remains veiled, indications are that residents of the Common Market became substantial investors in these securities during the period. Another factor, of course, has been the change in relationships between U.S. and European interest rates. Finally, the change in the pattern of payments surpluses within the Six may have contributed to their



emergence as a net capital exporter. The principal development in this respect has been the erosion of the surpluses in Germany and Italy, both of which have demonstrated a praiseworthy propensity to export capital even in the face of some handicaps.

The development in recent years of large European sources of capital for international investment is gratifying. It is one of the most promising signs that progress is being made in achieving a better adjustment in one aspect of the problem of international adjustment—namely, the relationship between current and capital accounts.

As already noted, 1967 was a year of abnormally large current account surplus for the Continental European countries. What will happen when the current account returns to a lower level, as it must do if the United Kingdom and the United States are to improve their own current account totals? Will Europe continue to export capital and permit reserve growth to shrink, or vice versa? The answer to this question will determine how international investment is to be financed in the future, and may indeed affect the actual physical volume of investment.

However, if Europe continues as a capital exporter, as we hope, even in the face of a declining current account surplus, we should come a long way toward a much better adjusted pattern of international payments. Moreover, this would have been achieved with a minimum amount of frictional strain on the individual economies or slowdown of world investment.

In the absence of new reserve creation, this could mean a substantial decline in the past rate of reserve accumulation on the Continent. It is important that such a leveling off in reserve growth not lead to an excess of caution in monetary and economic policies. Fortunately, the new facility for creating Special Drawing Rights can counter such tendencies, and makes possible both a continued upward movement of European reserves, as well as a continuation of European foreign investment.

To the extent that reserves of the European countries rise as a result of their own allocations of newly created Special Drawing Rights, they will receive credits on the books of the International Monetary Fund without having exported goods and services or imported capital to acquire these reserves. These reserves can remain passive or can be used. It is largely through the channel of monetary policy, interest rates, and a generally better environment for investment that the new Special Drawing Rights should over time exert their influence, insofar as these reserves are created for countries persistently in equilibrium or surplus.

Countries with a tendency towards a deficit are likely to borrow capital or reserves from abroad. The provision of Special Drawing Rights reduces the need to borrow reserves. To this extent, it should moderate one form of international borrowing. Allocations of Special Drawing Rights would substitute for borrowing and this should decrease demands that might otherwise fall upon international money and capital markets.

Thus, whether looked at from the aspect of surplus countries or deficit countries, the provision of an adequate growth of reserves through Special Drawing Rights should over time act as a stimulus to the level of international and domestic investment. It should help to avoid, or mitigate, tendencies to competitive escalation of interest rates that might otherwise occur as countries seek to build up or protect their reserves, when there is no way to increase the reserves of the world as a whole.

We have found that there has been a substantial shift of the sources of international capital investment from the United States to the EC countries of Europe, corresponding to the shift in the current account surplus, since 1961. At the same time the EC countries have continued to add substantially to their reserves out of the proceeds of the current surplus. We now hopefully expect some decline in the abnormally large trade surplus in Continental Europe, and a recovery of trading position on the part of the United Kingdom and the United States. It will be most constructive if the EC countries can accept adjustment in current account while maintaining the outflow of capital. This would bring all the major countries much closer to equilibrium and it would demonstrate a proper and positive functioning of the adjustment process.

The need for further reserve gains can be supplied by activating the Special Drawing Rights facility, without needing to invest current foreign exchange in reserves.

I suggest that this could be a pattern of progress, to the benefit of the world as a whole and especially to countries such as Spain, which have a vital interest in the continued flow of investment funds from the surplus countries to the rest of the world.

TABLE I.—*Selected groupings of items from U.S. balance of payments 1961 and 1967*

[In millions of dollars]

Accounts	1961	1967	Change
Current account (including U.S. Government capital outflow):			
1. Trade balance.....	5,444	3,483	-1,961
2. Net investment income.....	3,397	5,632	+2,235
3. Net other nonmilitary services.....	-1,475	-2,554	-1,079
4. Net military (cash receipts basis).....	-2,564	-3,271	-707
Expenditures.....	-2,981	-4,319	-1,338
Military cash receipts (including military advance payments and repayments on military credits).....	417	1,048	+631
5. Government grants and capital, net.....	-2,805	-4,257	-1,452
Gross outflows.....	-4,054	-5,129	-1,075
Scheduled repayments (excluding military credits).....	553	866	+313
Advance repayments.....	696	6	-690
Subtotal (items 2-5).....	-3,447	-4,450	-1,003
Total.....	+1,997	-967	-2,964
Capital flows (excluding U.S. Government capital outflow):			
6. Private U.S. and foreign capital (including errors and omissions).....	-4,462	-4,235	+227
Special U.S. Government liabilities other than military advance payments.....	+95	+353	+258
7. Net (excluding "official foreign capital inflow").....	-4,367	-3,882	+485
Official foreign capital inflow.....		+1,274	+1,274
8. Net capital outflow.....	-4,367	-2,608	+1,759
Liquidity balance.....	-2,370	-3,575	-1,205

TABLE II.—*Balance of payments of the EC countries, 1961-67*

[In billions of dollars]

	1961	1962	1963	1964	1965	1966	1967 <sup>1</sup>	Average 1961-67
Current account balance.....	+2.4	+0.8	-0.2	+0.5	+1.3	+2.1	+4.2	+1.6
Capital account balance <sup>2</sup> .....	+0.4	+0.3	+0.6	+1.6	+1.1	-0.6	-2.7	+0.1
Overall balance.....	+2.8	+1.1	+0.4	+2.1	+2.4	+1.5	+1.5	+1.7
Overall surplus used to:								
(i) Increase net official reserves.....	1.9	0.6	1.3	1.8	1.5	1.1	1.4	1.4
(ii) Increase net commercial bank foreign assets.....	-0.4	-0.3	-1.2	0.2	0.7	0.1	0.1	-0.1
(iii) Prepay official debt.....	1.2	0.8	0.4		0.2	0.3		0.4
Memorandum item:								
Percentage change in net official reserves.....	13.1	3.8	6.8	8.5	6.9	4.1	5.3	6.9

<sup>1</sup> Partially estimated.<sup>2</sup> Includes errors and omissions and net settlements by France on account of Overseas Franc Area.

SOURCES.—IMF and OECD statistics, adapted.

**Exhibit 55.—Statement by Acting Assistant Secretary Petty, April 5, 1968, before the Senate Committee on Banking and Currency, on S. 3218, a bill to provide an export expansion facility through the Export-Import Bank**

I welcome this opportunity to appear before this committee in support of S. 3218. I would like to emphasize the importance of S. 3218 in the framework of our comprehensive program to restore equilibrium to our international accounts. The need for action to eliminate the balance of payments deficit is, in the

words of President Johnson, "a national and international responsibility of the highest priority." The reasons for this priority are abundantly clear. The strength of the dollar abroad depends on our payments position. The international monetary system which rests so largely on the dollar will be greatly strengthened by elimination of the United States payments deficit. A stable international monetary system is essential to assure expanding world trade, and a prosperous international economy.

On January 1 of this year, the President proposed a comprehensive balance of payments program designed to bring our balance of payments position close to equilibrium in the year ahead. The program is broad and comprehensive. It requires additional savings in many phases of our activities abroad. It affects Government expenditures overseas, foreign loans and investments, foreign travel and foreign trade.

A great part of this program has already taken concrete form. A program has been established to cut Government personnel and other expenditures overseas as well as to reduce the impact on our balance of payments of security expenditures which cannot be further reduced. The Office of Foreign Direct Investment is now administering a program of temporary restraint on direct investment and the Federal Reserve has greatly strengthened its existing voluntary restraints on lending abroad by banks and other financial institutions.

In the field of travel, the Administration has made a number of proposals, now under consideration by Congress, to decrease the amount of money spent abroad by U.S. travelers. We are hopeful that these measures will be enacted. On the earnings side, the Industry-Government Task Force on Travel, chaired by Ambassador McKinney, has made comprehensive recommendations to promote the flow of foreign travelers to the United States. Many of the recommendations of the Task Force have already been implemented.

Moreover, negotiations, initiated by the President, are in progress to improve our trade position.

The President in his January 1 message also focused on the long-term measures which would assure a strong balance of payments position for the United States. Besides enacting the anti-inflation tax, encouraging wage-price restraints and reducing crippling work stoppages, three areas were cited where further efforts are needed: (1) Increases in exports; (2) reduction of nontariff barriers; and (3) increased foreign investment and travel in the United States.

The most important way to earn foreign exchange is through increased exports. Unfortunately our trade surplus has decreased from \$6.6 billion 4 years ago to less than \$3.6 billion last year. Increased exports are the cornerstone of our balance of payments position. In addition to measures to keep the domestic economy competitive and stable and to keep world markets open to U.S. goods and services, we need to make our industry more export-minded through export expansion programs.

To accomplish this objective, the President proposed:

(1) A 5-year \$200 million Commerce Department program to promote the sale of American goods overseas.

(2) A joint Export Association program under the Commerce Department to provide direct financial support to American corporations joining together to sell abroad.

(3) A more liberal rediscount system to be provided by Export-Import Bank to encourage banks to help firms increase their exports, and

(4) The Export Expansion Facility.

The Export Expansion Facility legislation which is before you today can make a significant contribution to a larger U.S. trade surplus and thus to our balance of payments position. It can do this principally through helping in the development of new markets for U.S. goods and services and by assisting smaller companies in exporting. President Johnson in his letter of March 20, 1968, transmitting the export expansion facility draft bill and requesting approval of a \$2.4 million supplemental appropriation to launch the 5-year Commerce program to promote American exports said "Both actions I recommend today will help increase America's exports . . . a vital element in the balance of payments equation."

The establishment of this facility within the Export-Import Bank was specifically endorsed by the President's Cabinet Committee on the Balance of Payments. The Action Committee on Export Financing of the National Export Expansion Council in 1966 proposed the creation of a somewhat similar national interest



fund in the Export-Import Bank which would permit Export-Import Bank to support U.S. exports on the basis of less stringent credit judgments than called for by existing Bank standards. The proposal also finds its origins in the Export Expansion Act introduced in 1965 by Senator Magnuson. It is evident that considerable thought and study have gone into this proposal.

I would like to emphasize that the legislation before you is designed to improve the U.S. balance of payments by expanding U.S. exports on a commercial basis. Mr. Linder has already emphasized that the new facility is designed to give further support to our commercial export trade. We in the Treasury are keenly aware that a loan financing exports is only helpful to our balance of payments to the extent down payments and installments are received. Therefore we support S. 3218 because we are convinced that the Export Expansion Facility will encourage acceptance of our exports in difficult markets. It will permit our products to become established in new markets where the potential for follow-on sales is high and it will finance receivables on commercial terms for which we will be paid. In markets where competition is aggressive it will facilitate the maintenance and expansion of existing export markets.

For these reasons, Mr. Chairman, the Treasury believes that S. 3218 will assist our exporters to obtain new sales abroad and contribute to elimination of our balance of payments deficit.

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**Exhibit 56.—Remarks by Assistant Secretary Petty, May 14, 1968, before the New York Society of Security Analysts, New York, on international financial considerations "When Peace Comes"**

In looking ahead and thinking about the subject of this seminar "When Peace Comes," I am reminded of that stage of childhood when the concept of time or magnitude has not yet really sunk into the young mind and the inquiring little face looks up and asks, "Daddy, when is tomorrow?" For the purposes of this exercise this morning I want to adopt that state of mind where I know there is going to be a tomorrow. After all, I hear everyone talking about it—but I just do not have any sense of timing about it. Proceeding from this point perhaps you can share with me my trepidation about trying to discuss in a comprehensive, much less intelligent, way what the international financial implications will be, "When Peace Comes."

I will address myself to this problem by discussing first, in broad terms, some aspects of the shape of the international financial system as it emerged after World War II, and I will point out what important changes I think are already under way, not only in the system itself but in the roles of the cast of players who are enacting it.

Next, I will speak on what our balance of payments position is today, and then discuss the post-Vietnam period in its more immediate and in its long-term aspects.

Finally, I will mention some points concerning the international liquidity system and the international adjustment process, both of which are so essential to the proper functioning of a viable and expansive world trading system.

**The preeminent position of the United States after World War II**

The functioning of the international financial system in the mid-1940's and after placed tremendous reliance upon the United States to bring economic growth and stability to the economies of Western Europe.

The job at that time was to reconstruct war-torn Europe and to reestablish a world trading and financial system that would facilitate a healthy and accelerated growth of trade. It was only natural that, as the major industrial nation surviving the havoc of the war, the largest effort to rebuild the peace fell upon us. The creation of economic conditions in which freedom and democratic institutions could flourish was deemed a national necessity of not much less priority than the defeat of the Third Reich itself. For the United States, the decade following the end of World War II was a period involving the deliberate transfer of resources to Western Europe.

Should circumstances of the future occasion a similar policy, the means employed to achieve this objective must of necessity be different from today's.

A review of the early debates on reparations and World War I debt illustrates that the financial terms of aid can play a crucial role in reconstructing the peace; that the seemingly mundane technical financial considerations—frequently ob-

secured by the pressures of the moment—can loom large, with pronounced political ramifications in following years.

A re-reading of Keynes' 1920 classic, "Economic Consequences of the Peace," should convince any doubters on this point.

### **The low priority on financial viability**

While Keynes argued that the terms of the World War I peace were unduly harsh, after World War II perhaps the other extreme was demonstrated. Again it was shown that the terms of the lender, or in this case donor, can have profound influences upon subsequent events: had the terms of our aid-giving for the last 20 years been different, that is, had the aid given Western Europe for purposes of reconstruction after World War II been only in the form of loans, it is quite likely that the gold stock of the United States today would be substantially larger than it is. This is easy to say today but one must not forget the political environment prevailing at the time these decisions were made.

This recitation is not meant to second guess upon the past; rather it is to illustrate a cardinal principle that must be borne in mind in assuming our international political, military and economic commitments in the future: the financial viability of the undertaking must be established at the time of the takeoff, and not at a later stage of the flight.

The atmosphere in which international financial policy evolved, that is, the period of the dollar gap, permitted this country to place future returns rather low on the list of priorities of considerations weighed in reaching a decision.

The question of the durability of the financial structure was considered deserving of less attention than achievement of the immediate objectives. Moreover, there was a general failure to anticipate the rapidity and vigor of the postwar economic recovery on the continent of Western Europe. Neither the emergence of the persistent continental European surplus nor the size of the continuing U.S. deficits were anticipated in the early postwar years.

### **The industry counterpart**

There is a counterpart in the private sector to the experience of the public sector. It is that during this same postwar period, U.S. industry and labor had the luxury of looking upon the export market, and more importantly, competition from abroad, as a marginal opportunity and a marginal concern, respectively. All too frequently, the export market was sort of an overflow market, a residual demand, that could be satisfied if domestic activity was off its peak. Imports seemed to be primarily specialty items concentrating upon various small sectors of local demand.

While the rise in imports is an increasing cause of concern, the benefits of a liberal trading world are too real and too immediate to respond to this development with a return to protectionism. On the contrary, the reduction in our trade account must call forth from industry and labor the same type of concern, the same type of initiative, the same type of imagination and energy as that which has gone into the space program, for example, or is being devoted to the problem of pollution or the antiballistic missile. How recently, for example, has management asked itself if it can license for domestic production and sale a foreign product now imported in this country? Until and unless management takes regularly into the board room, and down to the level of office managers and supervisors, a conscious thinking of the balance of payments impact of possible business decisions, we will not get the results from industry and labor that are needed to bring our trade surplus up to the high level at which it must be maintained.

Industries of our trading partners abroad have the great advantage of operating in an economy where exports might be as high as one-third of the gross national product of the country and this must mean that many companies manufacture primarily for export. With our exports not 4 percent of gross national product, with agriculture and Government assistance making up a good part of this, it is not hard to suspect that export promotion or import substitution are not active topics at board meetings. Management and labor must adopt the same type of awareness of the balance of payments implications of their actions as Government is doing.

### **Our current balance of payments position**

Against this background, then, where are we now and where are we headed today in terms of our international financial accounts?

After holding our deficit to a level of about \$1.3 billion in the years 1965 and 1966, we found our balance of payments situation only slightly worse during the first three quarters of 1967. This partly reflected increased expenditures in connection with the Vietnam conflict. In the fourth quarter of last year, there was a sharp deterioration in our position. The trade surplus declined by three quarters of a billion dollars from the third quarter level. The United Kingdom liquidated over \$500 million of U.S. securities to bolster its reserves in support of the pound sterling. The "errors and omissions" item which may, among other things, represent changes in short-term capital flows, became less favorable. Our deficit soared to \$1.8 billion, slightly exceeding the combined deficits of the three preceding quarters.

While much of the sharp deterioration in the fourth quarter was due to temporary factors, the very size of the deficit and the loss of gold it entailed were so great as to require immediate action by the Government. The result was a strengthened balance of payments program which was announced by President Johnson on January 1. I will not go into details about it but I would like to note the following:

—The program is designed to cover a wide sector of the American people—business firms making direct investments abroad, banks making foreign loans, Americans traveling outside the Western Hemisphere, companies capable of entering the export market, the Government itself as a large foreign spender in a wide variety of military and peaceful operations overseas and, of course, the general level of economic activity as well.

—The program combines temporary restraint measures with short- and longer-term positive inducements to develop more receipts for the U.S. balance of payments.

#### First quarter 1968 balance of payments position

We are releasing today our balance of payments results for the first quarter. The deficit was \$600 million—a very substantial drop from the \$1.8 billion in the fourth quarter and almost back to the quarterly level of the first half of last year. This improvement was achieved despite a \$223 million decline from the low last-quarter figure in our trade surplus, occasioned in part by an 11-day dock strike in New York and a very strong upsurge in domestic demand; despite a rise in U.S. residents' purchases of foreign securities; and despite failure of the Congress to enact, to date, some basic parts of the President's January 1 program, including most importantly, the tax surcharge proposal which would moderate domestic demand and the growth of our imports.

One part of the balance of payments program for which we have first quarter data shows good results. The 1968 target of a \$400 million reduction in outstanding bank loans to foreigners was almost achieved in the first quarter alone when such loans declined by \$359 million on a seasonally adjusted basis.

The effects of the mandatory direct investment program in the first quarter will not be known until late next month, and we do not yet have first quarter data on tourist expenditures abroad or expenditures abroad by Government agencies.

It is not too early to say, however, that

- if Congress passes the tax surcharge,
- if the business community and the public at large cooperate in other aspects of the program, and, very importantly,
- if foreign countries in balance of payments surplus cooperate by avoiding policies designed to maintain those surpluses,

we will be in a much better position to achieve the goal set by the President on January 1.

#### The immediate post-Vietnam period

During the past few years heavy emphasis has been placed on temporary restraints on capital outflow under the Commerce program and the Federal Reserve program. No doubt a question in your minds as well as ours is: Assuming peace in Vietnam, and the tapering off of defense expenditures for Southeast Asia over, say, a year and a half, would this be enough to correct our balance of payments position by 1970 or thereabouts, and enable us to do without the selective measures of the past years? Or is it necessary to achieve more than this by way of improvement in the trade and service account, or through a reduction or more effective neutralization of the foreign exchange costs of Government and military outlays in all parts of the world?



We have generally put the direct foreign exchange impact of hostilities in Southeast Asia at about \$1.5 billion. This figure is derived from a comparison of the current foreign exchange outlays in certain Asiatic countries with an earlier base period.

In answering these questions we must remember that we had a deficit of \$3½ billion in 1967, and that a reduction of \$1½ billion, taken alone, would carry us less than half way toward equilibrium. More than that, the deficit in 1967 could have been larger without the voluntary restraints on investment abroad.

Thus, it is not clear to me that peace in Vietnam alone would improve our balance of payments problem to the point where we could do away with our restraint measures. In the immediate period it might not even permit us to relax the selective measures that have become necessary to permit an approach toward the equilibrium that is so important to the continued strength of our currency. We might still need a substantial improvement in our current trade and service account and a further reduction or neutralization of our continuing military foreign exchange expenditures in other parts of the world.

Thus it becomes extremely important, from the point of view of our balance of payments program, that we avoid an excessive rate of growth in the gross national product in monetary terms in order to escape an excessive spillover demand for foreign imports, and to maintain a reasonable rate of growth in our exports. It is equally important that the surplus countries abroad maintain a reasonable growth rate that is not too dependent on a surplus with the rest of the world. It is quite understandable that they wish to avoid inflationary pressures, just as we do, that would be associated with excessive domestic expansion. But it seems to us reasonable that countries with large surpluses on current trade, service and military accounts, should feel a stronger responsibility for maintaining adequate growth than countries in less fortunate positions. On their side, the deficit countries should recognize the need for an added measure of caution to avoid too strong a domestic expansion. In both surplus and deficit countries, there appears to be a good deal of sensitivity in the trade and service accounts to the steepness of the curve of rising gross national product in monetary terms.

#### **The long term post-Vietnam period**

In the long term post-Vietnam period the situation is difficult to foresee. I am defining this period as one following the completion of the economic adjustment attendant to the deescalation of hostilities. This should be a period when equilibrium might hopefully have been reached on the liquidity measure of our balance of payments and we should be working aggressively toward a period of sustainable equilibrium which in my definition must include the absence of the type of restrictions that were part and parcel of our January 1 balance of payments program.

In reflecting about this period ahead there are several areas we must bear in mind. We have traditionally looked upon the United States as a natural capital exporter. A country generating such substantial savings, a financial community which marshals these assets so efficiently, an industry reaching out to penetrate new markets abroad, combined with countries of the world needing new funds to achieve the capabilities of their lands and the requirements of their people indicates that no other course should be pursued. This traditional position can only go unchallenged as long as we maintain a strong current account and in this regard our dwindling trade surplus is disturbing.

Economic assistance will continue to make substantial demands upon our capital, both to maintain our bilateral economic assistance program as well as our multilateral program which involves contributions to such agencies as the World Bank, the Inter-American Development Bank, and the Asian Development Bank. These demands are also in the form of borrowing by these banks in our bond markets to finance their development activities.

One area of special interest and particular need of study is that of direct investment. What is the relationship of these investments to development in the lesser developed areas? Does direct investment contribute to the financial strength and economic leadership of the United States? Or does it just replace exports? I doubt that this is a subject which lends itself to generalizations; however, this is what the dialogues on the subject involve. A series of careful studies compiled in balance of payments and perhaps other terms for each of several industries should improve the information available in this area.

In looking back at our balance of payments picture for the last 20 years, we cite too frequently the persistent stream of deficits and fail to realize that as a

country we were building up assets at a rate substantially faster than our cumulative deficits. These assets, of course, were the direct investments acquired by our corporations in their foreign investment program, and as we shall see, these investments yield important returns. Our gross plant and equipment expenditures overseas for the last couple of years have been increasing at the rate of around \$10 billion a year and these, too, should be throwing off earnings before long. At the present time, our dividend receipts and our royalties and fees bring back over \$5 billion a year and in thinking ahead to the future, it seems clear that this return on our past investment will be our most reliable and constantly growing inflow in our balance of payments picture. We are very alert to this and must take pains to foster these receipts.

The United States is a substantial capital importer as well. Besides receipts from monetary authorities this involves primarily an inflow of portfolio capital to buy the types of securities in which much of this audience specializes. The control of inflation and a stable and steady growth record is the best assurance that these funds will continue to be entrusted to our economy.

No doubt we will continue to have mutual security commitments in the long term which I am postulating, but I suspect that they will involve amounts well reduced from the current level and, what is more, measured in net balance of payments terms, the cost will be less than some have feared. The basic principle that in fulfilling mutual security objectives the contributing country should not suffer balance of payments costs, is already understood. Indeed acceptance of this standard should figure prominently in the considerations establishing future mutual security obligations. This is but another aspect of international financial cooperation.

It is too hazardous to try to bring these elements, and others I have not mentioned, together for any one composite picture of our payments position in the long term. But I think it should be clear that the realities of our international responsibilities and financial position will be such that both the public and private sectors of our economy will continue to be vitally concerned with this problem.

### **The international financial markets**

Returning now to the more immediate period, I might comment briefly on the international financial markets.

The initial impact of the decision to begin peace talks has been, from all appearances, a positive factor in the gold and exchange markets. It means that one of the storm clouds that has threatened the smooth functioning of the world's monetary system may gradually lift. In any case, this cloud appears less likely to bear down on the financial markets with full force. Thus, we welcome the immediate psychological effect, though it is very difficult to measure it in any quantitative way. The markets have seen in the Vietnam hostilities several reasons for concern. There is first the direct impact on the U.S. balance of payments which is the result of any significant level of hostilities. This, and the possibility of escalation, was a factor contributing to speculative movements of funds on the part of foreigners into gold.

Then there was a more general fear that growing demands on U.S. resources would add to the budgetary deficit and to general inflationary pressures in the United States. While this consideration may now be somewhat less clearcut than was the case before the action of the Conference Committee on the tax-expenditure package, only the favorable action of Congress will dispel this concern.

A movement towards peace may tend to ease the strain on our public finances. These actions raise confidence in the dollar and serve to give more stability to the monetary system in general. Thus we may reasonably regard the initiation of peace negotiations as another constructive factor in the current flow of events affecting the health and soundness of the international monetary system.

Another is the removal of suspense about the role of gold and the reaching of agreement for the creation of supplementary reserve assets. The Washington Communiqué of March 17, 1968, established a two-tiered gold price system and removed a heavy strain on official gold reserves due to private speculation. It also emphasized the maintenance of an unchanged official monetary price for gold. The Stockholm Agreement and the proposed amendment on the Special Drawing Rights made clear that nearly all of the countries of the world seek to supplement the world's reserve system in this enlightened way, and not by tinkering with the price of gold for monetary purposes. When the Special Drawing Rights

facility is in effect, the future reserve needs of the world can be met by creating new SDRs. No other provision need be made.

### **The problem of balance of payments adjustment**

One of the more important factors involved in a properly functioning world trading system is that international process by which countries adjust their balance of payments positions with one another. Notwithstanding substantial efforts to remove it, our deficit has persisted for several years, during a period when the balance of payments surplus in continental Europe has continued longer than necessary or appropriate. The process by which these surpluses and deficits are each adjusted toward equilibrium is referred to as the balance of payments adjustment process and it is an important subject deserving of more attention than it receives.

We are indebted to Working Party 3 of the Organization for Economic Cooperation and Development for a July 1966 report on this subject. What this report points out is that the responsibility for adjusting balance of payments positions, whether they are persistent surpluses or deficits, rests with each country whether they are in surplus or deficit. For example, a country in surplus which pursues a high-interest, deflationary policy accompanied by trade restrictive practices is working counter to the adjustment process and it should adopt as a matter of national policy, and international financial cooperation, economic measures which serve to reduce the surplus.

For the deficit country, there can be no question about its responsibility in taking measures to reach equilibrium, and this applies to the United States in particular. This is a major objective of the tax surcharge and the expenditure cut and it has certainly been a factor in influencing our monetary policy as well. These measures to moderate the rate of economic growth and, thereby, improve our trade position are reinforced by other aspects of our broad and comprehensive balance of payments program.

In the long run, all countries must persistently work to improve the operation of the adjustment process because efforts to reach equilibrium may have important effects on unemployment, prices and the domestic growth rate. Too sharp a deflationary policy is not acceptable—and in the case of the United States for example, the slow-down would really have to be very substantial to have sufficient effect through reducing imports or inducing exports to solve our problem by that measure alone.

### **Summary**

In summary, we have seen that the pre-eminent role of the United States in the international financial system is rapidly evolving into one of financial partnership with the other countries of the world. This evolution has involved a shift of more responsibility to these other countries. It requires the implementation of principles—for example, that foreign exchange costs incurred for purposes of mutual security should be neutralized in the common interest. This new partnership also involves sharing more broadly the responsibility of extending economic assistance to the lesser developed areas of the world. This partnership requires positive action to reduce nontariff barriers to accelerate the flow of trade, and improved access to capital markets.

With this type of international cooperation, the international financial system and the adjustment process will work in a way which will foster freer trade in goods and freer flows of capital in an atmosphere of expanding world trade.

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### **Exhibit 57.—Press release, December 21, 1967, announcing the signing of an exchange agreement by the United States and Mexico**

Secretary of the Treasury Henry H. Fowler and the Ambassador of Mexico, Hugo B. Margain, today signed a \$100,000,000 Exchange Stabilization Agreement between the United States Treasury, the Bank of Mexico, and the Government of Mexico, replacing a similar agreement signed in December 1965, which expires at the end of 1967. The 1965 agreement was in the amount of \$75,000,000 and was increased to \$100,000,000 in May 1967.

The Agreement signed today represents a continuation of stabilization arrangements between the United States and Mexico which have been in effect since 1941, and have proved beneficial to the financial relationships between the two



countries. The agreement provides reciprocal swap facilities available for use both by Mexico and by the United States. These swap facilities strengthen the ability of the financial authorities to cooperate effectively and to conduct such stabilization operations as may be desirable from time to time to promote stable and orderly conditions in the exchange markets.

The new agreement will be effective during the 2-year period ending December 31, 1969.

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**Exhibit 58.—Press Release, January 18, 1968, announcing publication of a documentary report on "Maintaining the Strength of the United States Dollar in a Strong Free World Economy"**

The U.S. Treasury Department today released a documentary report on "Maintaining the Strength of the United States Dollar in a Strong Free World Economy."

The 229-page document describes in detail the background and reasons for the Action Program announced by President Johnson in his New Year's Day message to the nation on the balance of payments. The report also reviews what has been done and what is proposed—both short and long-term—to bring the nation's balance of payments into equilibrium and keep it there—an equilibrium described by the President as "a national and international responsibility of the highest priority."

In a foreword to the report, Treasury Secretary Henry H. Fowler said that the U.S. program necessarily must involve cooperative actions by and with other nations. "Without such cooperation," Mr. Fowler said, "it is not possible to achieve U.S. payments equilibrium in a manner conducive in the long term to an increased flow of trade and capital and to viable and sturdy arrangements for the security and development of the free world." Achievement of balance compatible with these objectives, he noted, will call for adjustments by America's trading partners and allies as well as by the United States.

The Secretary also said that the acceptance and execution of the U.S. program will require the understanding, support, and participation of the entire Executive Branch of the Government, the Congress and the American people—business, labor, financial, and farm groups alike. He advocated speeding-up plans for the creation of new reserves—Special Drawing Rights in the International Monetary Fund—"as our movement toward payments balance curbs the flow of dollars into international reserves." A plan for such Special Drawing Rights was approved at Rio de Janeiro last September by the IMF's 107 member countries.

The Treasury document cited these "key resources" as ones which give the United States the strength to deal with its underlying long-range payments problems both constructively and sensibly:

- A strong economy with a gross national product in excess of \$800 billion—representing 40 to 45 percent of world output;

- a large stock of foreign assets with powerful earnings potential. Gross assets abroad—public and private—total more than \$110 billion. The U.S. net long-term asset position—approximately \$70 billion—has increased every year for 20 years. Private overseas assets alone now generate annual earnings of about \$6 billion;

- a basic trade surplus which totaled approximately \$4 billion last year on which the U.S. must build;

- a strong reserve position—nearly \$15 billion, or about 20 percent of world reserves—even after losses of the past few years.

The report pointed out that "we can build on these elements of strength and move toward balance of payments equilibrium through short- and long-range measures vigorously implemented," and that passage of time "will ameliorate forces that presently exacerbate the balance of payments deficit and hide the fundamental progress achieved."

Ideally, the Treasury Department said, "the United States would solve its balance of payments problem through a gradual, long-range approach in which there was no interference with the free movement of goods and services, capital or people." However, the Treasury said, "the situation that confronts the United States today requires prompt and major corrective action. Long-term measures alone that take hold gradually over time are not sufficient."

The Action Program announced by President Johnson on January 1 consists of general and specific measures, including short-range and long-range actions,

designed to reduce sharply the U.S. payments deficit in 1968, and bring it into—or close to—equilibrium.

Direct measures include:

—Mandatory limits on direct investments abroad by U.S. companies to reduce the payments deficit in 1968 by \$1 billion;

—A voluntary program for reducing foreign credits from U.S. banks and other financial institutions, expected to bring a net inflow of at least \$500 million in such credits in 1968;

—Encouragement of more foreign travel to the United States; deferment of nonessential American travel outside the Western Hemisphere for the next 2 years, and exploring of appropriate legislation, all to reduce the U.S. travel deficit by \$500 million;

—A further reduction of \$500 million in the foreign exchange impact of Government programs overseas through negotiations with our NATO allies to minimize foreign exchange costs of keeping our troops in Europe by purchases in the United States of more defense equipment and investment of exchange receipts in long-term U.S. securities; reduction of personal spending by U.S. forces and their dependents; reduction in the number of American civilians working overseas, and reduction of Agency for International Development foreign exchange costs by at least \$100 million in 1968;

—Activities to increase the U.S. trade surplus by encouraging exports, with a goal of a \$500 million increase in exports in 1968. Congress will be asked to support an intensified 5-year program to promote the sale of U.S. industrial and agricultural products in foreign markets; \$500 million will be earmarked by the Export-Import Bank to provide better export insurance, to expand guarantees for export financing, and to broaden the scope of Government financing of exports; the Export-Import Bank will encourage banks to help firms increase their exports, and the Commerce Department will begin a Joint Export Association program to provide financial support to American companies joining together to sell abroad. Discussions have been initiated, particularly with nations having balance of payments surpluses, to minimize the handicaps to U.S. trade which arise from differences in national tax systems.

The Treasury said the Action Program “will entail sacrifices in this country and it may cause difficulties for some foreign countries.” But in order to assure a fair sharing of these sacrifices, the Treasury said, the program has been widely spread over all sectors of the U.S. economy. To minimize adverse effects on the world economy, the program distinguishes among groups of countries on the basis of their ability to absorb reductions in their foreign exchange receipts.

“Restrictive measures are temporary,” the Treasury said. “The policy of the United States is to support the unrestricted international flow of goods, services and capital under a stable international monetary system based on fixed values for currencies defined in terms of gold or the dollar, linked at \$35 an ounce.”

An appropriate long-range balance of payments solution for the United States must, the Treasury said, be based on a substantial and growing surplus in trade and services, including earnings from U.S. foreign investments.

“Unfortunately, after a period of unprecedented stability, U.S. prices and costs rose in 1966 and 1967. The rapid expansion in the U.S. economy that is now under way threatens a further rise in prices and costs. This would endanger our economic prosperity and undermine our competitive position in world markets \* \* \* The most urgent business before Congress is to complete this anti-inflation program by enacting a temporary surcharge on income and profits taxes,” the Treasury said.

“Even a strong fiscal policy and a stringent credit policy cannot maintain price stability,” it noted, “unless business and labor are willing to follow price-wage practices that conform to the needs of our economy \* \* \* The country cannot afford the loss of output resulting from crippling work stoppages in critical industries. They reduce our exports and increase our imports.”

The mandatory controls on direct investment outflows, the firmer voluntary guidelines for banks and the request to defer nonessential travel outside the Western Hemisphere “are all measures which the United States has adopted very reluctantly. The high cost of these measures is in itself a dramatic witness to the priority the United States attaches to doing its full share in reducing the imbalance in world payments—and to the recognition that a breakdown of the system would have involved far higher costs for the U.S. and even more for the world economy,” the report said.

The reduction of the deficit in the U.S. balance of payments must be allowed, and even encouraged, by the rest of the world, the Treasury pointed out, adding

that "major positive measures" by other countries are required to bring about payments equilibrium "consistent with the achievement of sound world economic growth and freer as well as growing international transactions."

Treasury said it is a matter of the highest priority for European governments, particularly the governments of the EEC countries, to face fully the fact that their balance of payments positions must show a large change from excessive surplus to much more moderate surplus, perhaps even to moderate deficit, for a short period.

The document was placed on sale by the Superintendent of Documents, Government Printing Office.

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**Exhibit 59.—Press Release, March 4, 1968, announcing the signing of an exchange agreement by the United States and Nicaragua**

Secretary of the Treasury Henry H. Fowler, the Ambassador of Nicaragua, Guillermo Sevilla-Sacasa, and the Minister of Finance and Public Credit of Nicaragua, General Gustavo Montiel, today signed a \$4.75 million Exchange Agreement between the United States Treasury and the Government and Central Bank of Nicaragua.

The Exchange Agreement is for a 1-year period. It is designed to assist Nicaragua in its efforts to maintain economic stability and freedom in its trade and exchange system. The Agreement provides for the conduct of exchange operations, as deemed mutually desirable and advantageous. The United States may purchase Nicaraguan cordobas with dollars from time to time, and Nicaragua will subsequently repurchase the cordobas.

These operations will have as their objective the promotion of confidence in the foreign exchange market and increasing trade and other exchanges between the two countries.

The Agreement signed today complements the \$19 million standby arrangement with Nicaragua announced on February 26, 1968, by the International Monetary Fund.

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**Exhibit 60.—Press Release, March 8, 1968, announcing a U.S. drawing from the International Monetary Fund**

The Treasury Department will draw \$200 million in various foreign currencies from the International Monetary Fund today.

The currencies to be drawn and their dollar equivalent values are:

Netherlands Guilders.....	\$100 million
Italian Lira.....	50 million
German Marks.....	35 million
Belgian Francs.....	15 million

The foreign exchange drawn from the International Monetary Fund will be used to finance U.S. international payments by repaying short-term swap drawings made by the United States late in 1967. These drawings were made to facilitate the orderly functioning of the international exchanges at a time when there were large flows of funds across the exchanges in connection with uncertainties attendant upon the position of the pound sterling and its devaluation. Most of the swap drawings made at that time have subsequently been settled.

The current IMF drawings, together with past drawings, brings the total drawn by the United States from the IMF to \$1,840 million since 1964. The amount subject to repayment by the United States to the IMF amounts to only \$833 million, however, because of U.S. dollar drawings from the IMF by other countries, including the amount of \$201 million in U.S. dollars most recently drawn by Canada. Drawing rights in the IMF gold tranche (virtually automatic U.S. drawing rights in the Fund) of \$457 million will remain.

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**Exhibit 61.—Press Release, March 18, 1968, announcing the signing of an exchange agreement by the United States and Venezuela**

Secretary of the Treasury Henry H. Fowler and the President of the Central Bank of Venezuela, Benito Raul Losada, signed a \$50 million Exchange Agreement today in Washington.



The new Agreement will be in effect for 2 years. It represents a continuation of monetary cooperation arrangements between the United States Treasury and the Venezuelan Central Bank. The first Exchange Agreement between the two countries was signed in Caracas on March 18, 1966. The earlier Agreement expires today and is being replaced by the new Agreement just signed.

The Agreement provides for reciprocal currency "swap" facilities under which:

—The U.S. Treasury Exchange Stabilization Fund may purchase Venezuelan bolivares in exchange for dollars, and

—The Venezuelan Central Bank may purchase United States dollars in exchange for bolivares,

—Up to \$50 million, at times and in amounts as may be mutually agreed.

The availability of these currencies to the two countries will increase the ability of their financial authorities to cooperate effectively in international economic affairs, and to promote stable and orderly conditions in exchange markets.

**Exhibit 62.—Press Release, April 30, 1968, announcing the signing of an exchange agreement by the United States and Argentina**

Secretary of the Treasury Henry H. Fowler and the Ambassador of Argentina, His Excellency Alvaro Alsogaray, today signed a \$75 million Exchange Agreement in Washington.

The new Agreement provides for reciprocal currency "swap" facilities which enable either the United States or Argentina to draw the currency of the other country up to an aggregate amount of \$75 million. The drawings may be made at times and in amounts that are mutually agreeable to both countries.

The new Agreement will be in effect for one year. It replaces an expiring 1-year Agreement signed May 2, 1967.

The reciprocal availability of currencies will increase the ability of financial authorities of the United States and Argentina to cooperate effectively in international economic affairs, and to promote stable and orderly conditions in the foreign exchange markets.

**Exhibit 63.—Other Treasury testimony published in hearings before congressional committees, July 1, 1967–June 30, 1968**

**Secretary Fowler**

Statement on the new plan for international monetary reserves, published in hearings before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, U.S. Congress, 90th Congress, 1st session, September 14, 1967, pages 2–19.

Statement published in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 2d session on H.R. 14743, a bill to eliminate the reserve requirements for Federal Reserve notes and for U.S. notes and Treasury notes of 1890, January 23, 1968, pages 4–21.

Statement on the balance of payments and international finance published in hearings before the Joint Economic Committee (Part I), U.S. Congress, 90th Congress, 2d session, February 15, 1968, pages 277–279 and 284–290.

Statement published in hearings before the Committee on Foreign Relations, U.S. Senate, 90th Congress, 2d session on S. 3423 and H.R. 16911, bills to provide for United States participation in the facility based on Special Drawing Rights in the International Monetary Fund, May 13, 1968, pages 2–28.

Statement published in hearings before the Committee on Foreign Relations, U.S. Senate, 90th Congress, 2d session on S. 3378, a bill to provide for increased participation by the United States in the International Development Association, May 21, 1968, pages 2–15.

Statement published in hearings before the Committee on Finance, U.S. Senate, 90th Congress, 2d session, on H.R. 16241, an act to extend the tax on the transportation of persons by air and to reduce the personal exemption from duty in the case of returning residents, June 25, 1968, pages 15–62.

**Under Secretary Barr**

Statement published in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 1st session on H.R. 6649, a bill

to amend the Export-Import Bank Act of 1945, to shorten the name of the Bank, to extend to 5 years the period within which the Bank is authorized to exercise its functions, and to increase the Bank's lending authority and its authority to issue against fractional reserves, export credit insurance and guarantees, September 12, 1967, pages 5-6.

Statement published in hearings before the Committee on Foreign Relations, U.S. Senate, 90th Congress, 2d session on S. 2975, a bill to provide for increased participation of the United States in the Inter-American Development Bank, March 25, 1968, pages 1-5.

#### **Under Secretary for Monetary Affairs Deming**

Statement on the new plan for international monetary reserves, published in hearings before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, U.S. Congress, 90th Congress, 1st session, September 14, 1967, pages 20-27.

#### **Assistant Secretary Petty**

Statement published in hearings before the Committee on Banking and Currency, House of Representatives, 90th Congress, 2d session on H.R. 16162, a bill to enable the Export-Import Bank of the United States to approve extension of certain loans, guarantees, and insurance, May 13, 1968, pages 10-12.

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### **Gold and Silver Operations**

#### **Exhibit 64.—Press release, July 14, 1967, concerning Treasury sales of silver**

Success of the Treasury Department's coinage program in producing silverless "clad" coins in numbers which can meet any foreseeable needs has led to a decision to halt Treasury sales of silver at \$1.29 an ounce.

Future Treasury sales of silver will be at going market prices in amounts up to 2 million ounces a week.

The former price was maintained by Treasury in order to keep silver coins circulating to meet the needs of the national economy.

The rights of people who hold U.S. silver certificates to exchange them for silver at the \$1.29 rate will not be affected. Also, the legal prohibition against melting, treatment or export of U.S. silver coins will remain in effect.

Secretary of the Treasury Henry H. Fowler, acting on a recommendation made today at a meeting of the Joint Commission on the Coinage, has halted all sales of Treasury silver at the \$1.29 price, effective immediately, and has stated that the Department will consult with General Services Administration on arrangements for conducting future sales of Treasury silver.

It will be sold, as recommended by the Coinage Commission, under a competitive sealed bid procedure, with small, as well as large, purchasers given the opportunity to bid for it, and in amounts to be determined for each sale by the Secretary of the Treasury. Details of the bidding and selling procedure will be announced as soon as they are worked out.

The Secretary will make reports from time to time to the Coinage Commission on Treasury silver supplies and the results of these sales.

Because world demand for silver, which exceeds world supplies, would threaten the U.S. silver coinage, the Treasury, in 1965, obtained enactment of legislation to allow the minting of new dimes and quarters containing no silver, and a half-dollar with silver content reduced.

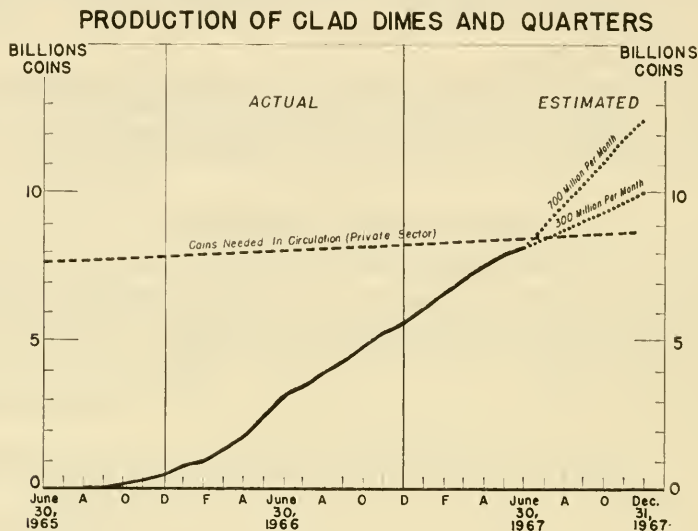
Since then, in 2 years, the Mints have worked on expedited schedules, to produce  $8\frac{1}{4}$  billion of the new, silverless dimes and quarters, as compared to total Mint production of  $12\frac{1}{2}$  billion dimes and quarters over the prior 25 years.

The Treasury found it necessary, in mid-May of this year, to confine sales at \$1.29 an ounce to U.S. buyers normally using silver in their operations and to invoke its legal authority to prohibit melting, treatment or export of silver coins. This came about because of a rapid rise in purchases of Treasury silver which started in early May and threatened to exhaust existing stocks. Until then, the Treasury had been selling at the \$1.29 an ounce price to all comers, in order to keep the world price of silver down until the point could be reached in new coin production at which the supply of the older silver coins would not be a critical factor in maintaining orderly commercial transactions.

At that time, on May 18, the Treasury estimated that by the end of this year, if not earlier, there should be enough of the new coins to meet all U.S. needs. Today's decision represents the conclusion of the Joint Commission on the Coinage, as well as that of Treasury and Mint officials, that this point has now been reached.

With an estimated  $8\frac{1}{2}$  billion dimes and quarters in circulation, the Treasury had produced  $8\frac{1}{4}$  billion new coins of these denominations as of yesterday. Moreover, Mint production is planned at a rate of 300 million coins a month for the balance of this year, and the Treasury has enough of the new coin blanks on hand to increase this production rate to 700 million a month if necessary.

The chart below shows how Treasury coinage production met the need for new coins over the past  $2\frac{1}{2}$  years.



#### Exhibit 65.—Amendments to silver regulations, September 21, 1967

### Title 31—MONEY AND FINANCE: TREASURY

#### Chapter I—Monetary Offices, Department of the Treasury

##### PART 56—OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS SALE OF SILVER

##### PART 93—OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS PROCEDURES AND DESCRIPTIONS OF FORMS

#### Miscellaneous Amendments

On July 14, 1967, the Treasury Department discontinued sales of silver at \$1.2929292 per fine troy ounce. Since that date, sales of silver have been conducted by the General Services Administration for the Treasury Department under competitive bidding procedures. Part 56 is hereby amended to describe the conditions under which such sales are carried out. Because of the nature and purpose of this part, it was found that notice and public procedure were impracticable, unnecessary, and contrary to the public interest.

1. Section 56.1 is hereby amended to read as follows:

#### § 56.1 Conditions upon which silver will be sold.

The General Services Administration, as agent for the Treasury Department, will conduct periodic sales of silver as agreed upon between GSA and the Treasury Department. Sales will be under competitive bidding procedures established



by agreement between GSA and the Treasury Department. Details of the bidding and selling procedures are obtainable by telephone or by writing to General Services Administration, Property Management and Disposal Service, Industry Materials Division, Metals Project, Washington, D.C. 20405.

2. Section 56.2 is hereby amended to read as follows:

**§ 56.2 Sales price.**

Sales of silver will be at prices offered through the competitive bidding procedures referred to in § 56.1, and accepted by the GSA.

**§ 93.75 [Deleted]**

3. For the same reasons as the revision of Part 56 above, § 93.75 of Part 93 is hereby deleted.

Subject to the provisions of Public Law 90-29, approved June 24, 1967, silver certificates will continue to be exchangeable for silver on demand until June 24, 1968, and as specified in the first paragraph of the notice appearing at 29 F.R. 3819, March 27, 1964.

[SEAL]

FREDERICK L. DEMING,  
*Under Secretary of the Treasury  
for Monetary Affairs.*

[F.R. Doc. 67-11144; Filed, Sept. 21, 1967; 8:47 a.m.]

**Exhibit 66.—Press release, March 17, 1968, concerning amendments of Treasury gold regulations**

Pursuant to agreements announced by the central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States in Washington on March 17, 1968,<sup>1</sup> the Treasury Department has issued amendments of the Treasury Gold Regulations, effective immediately.

The Treasury will no longer purchase gold in the private market nor will it sell gold for industrial, professional or artistic uses. The private holding of gold in the United States or by U.S. citizens and companies abroad continues to be prohibited except pursuant to existing regulations.

The Gold Regulations have been amended to permit domestic producers to sell and export freely to foreign buyers as well as to authorized domestic users. Authorized domestic users regularly engaged in an industry, profession, or art in which gold is required may continue to import gold or to purchase gold from domestic producers within the limits of their licenses or authorizations in the Gold Regulations.

**Exhibit 67.—Amendments to gold regulations, March 18, 1968**

**Title 31—MONEY AND FINANCE: TREASURY**

**Chapter I—Monetary Offices, Department of the Treasury**

**PART 54—GOLD REGULATIONS**

**Import of Gold by Persons Holding Treasury Licenses and Export of Newly Mined Domestic Gold**

The purposes of the amendments set forth below are to provide that the Mints shall no longer purchase or sell gold, and to provide that newly mined domestic gold may be exported. Persons regularly engaged in an industry, profession, or art, who require gold for legitimate, customary, and ordinary use, or persons holding Treasury gold licenses may continue to acquire newly mined gold or to import gold into the United States for authorized uses. Because of the nature of these amendments, their relationship to the international monetary system, and the consequent necessity for making them effective immediately, it is found that notice and public procedure are impracticable, unnecessary, and contrary to the public interest.

<sup>1</sup> See exhibit 39.

1. Section 54.7 is amended by inserting "(a)" at the beginning thereof, and by adding at the end thereof the following:

**§ 54.7 General provisions affecting export licenses.**

\* \* \* \* \*

(b) This section shall not apply to exports of gold authorized under § 54.25(b).

**§ 54.19 [Amended]**

2. Section 54.19(b) (1) is deleted.

3. Section 54.19(c) is amended by deleting "to the United States and".

**§ 54.21 [Amended]**

4. Section 54.21(a) (1) is amended by deleting therefrom the words "unmelted scrap."

5. Section 54.21(a) (3) is amended by deleting therefrom "to the United States,".

6. Section 54.21(a) (4) is amended by deleting therefrom "to the United States or".

**§ 54.23 [Amended]**

7. Section 54.23 is amended by deleting therefrom ", or for sale to the United States".

8. Section 54.25(b) is amended by adding at the end thereof the following:

**§ 54.25 Licenses.**

\* \* \* \* \*

(b) *Licenses and authorizations for the exporting of gold.* \* \* \*

(5) Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, which shall not have entered into monetary or industrial, professional, or artistic use may be exported from the United States for disposition to a person not subject to the jurisdiction of the United States, or to a person subject to the jurisdiction of the United States who is licensed to acquire such gold without the necessity of obtaining a license therefor. With respect to each such export, such information shall be furnished in such form and at such time as the Director, Office of Domestic Gold and Silver Operations requires under § 54.26(a).

**§§ 54.36-54.52 [Revoked]**

9. Sections 54.36 to 54.52, inclusive, are hereby revoked.

Parts 92 and 93 shall be deemed to be modified to the extent necessary to conform to the amendments to Part 54 made herein.

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b; E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959-63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR, 1943 Cum. Supp., E.O. 10289, 16 F.R. 9499, 3 CFR, 1949-53 Comp., except as otherwise noted)

This amendment shall become effective on filing with the Office of the Federal Register.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

[F.R. Doc. 68-3385; Filed, Mar. 18, 1968; 9:01 a.m.]

## Exhibit 68.—Amendments to gold regulations, April 15, 1968

### Title 31—MONEY AND FINANCE: TREASURY

#### Chapter I—Monetary Offices, Department of the Treasury

##### PART 54—GOLD REGULATIONS

##### Transactions in Gold

Licensing of persons to trade in gold; prohibitions against transactions in monetary gold; and transactions in which persons may act as brokers or provide safe-keeping services for gold.

The purposes of the amendments set forth below are: (1) To make it clear that the Director, Office of Domestic Gold and Silver Operations, will henceforth consider applications for licenses submitted by persons wishing to engage in the business of buying and selling gold required by authorized industrial, professional, and artistic users, and to set forth in more detail the terms and conditions of these licenses; and (2) to clarify existing regulations to indicate that persons (including banks) may, without being licensed, purchase gold for the account of persons licensed or otherwise authorized to acquire gold pursuant to Part 54, and offer custodial storage and safekeeping services for such licensed or authorized persons. Persons acting as agents may not themselves acquire any interest in the gold which they buy, sell, or hold in safekeeping for the account of another, nor extend credit beyond the normal time necessary for the remittance of funds.

Persons who hold Treasury gold licenses or who otherwise are authorized by the regulations may continue to acquire newly mined gold or to import gold into the United States for authorized uses. Henceforth, all transactions in gold with foreign monetary authorities are prohibited.

In addition, some technical changes are made in certain provisions of the regulations in order to conform them with the amendments to the Gold Regulations issued on March 18, 1968 (33 F.R. 4677).

Because the nature of these amendments is to clarify existing regulations, and there is a necessity for making them effective immediately, it is found that notice and public procedure are unnecessary.

(Sec. 5 (b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b; E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959-1963 Comp.; and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205, 3 CFR, 1943, Cum. Supp.; E.O. 10289, 16 F.R. 9499, 3 CFR, 1949-1953 Comp.; except as otherwise noted)

#### § 54.2 [Amended]

1. Section 54.2(a) is amended by deleting therefrom "54.34" and substituting therefor "54.35", and is further amended by deleting therefrom "; and § 54.35 to 54.52 refer particularly to sections 8 and 9 of the Gold Reserve Act of 1934, as amended".

#### § 54.4 [Amended]

2. Section 54.4(a) (9) (iii) is amended by deleting therefrom "\$35 per troy ounce of fine gold content" and substituting therefor the words "the cost to the manufacturer of the gold in the article".

3. Section 54.4(a) (12) is amended by deleting therefrom the words "and includes, but not by way of limitation, acts of agency with respect thereto although the principal be unknown".

#### § 54.6 [Amended]

4. Section 54.6(b) is amended by deleting therefrom "such advice" and substituting therefor "any notice from the Director of modification or revocation of license".

5. Section 54.6(b) footnote 1 is amended by deleting therefrom "93.18" and substituting therefor "93.10".

6. Section 54.13 is amended to read as follows:

#### § 54.13 Transporting or holding gold in safekeeping.

(a) Carriers are authorized to transport gold for persons who are either licensed or who are otherwise permitted by the regulations in this part to hold and transport gold.

(b) Banks and other persons are authorized to provide facilities for the safekeeping of gold lawfully held pursuant to a license issued under this part or otherwise permitted to be held by the regulations in this part.

#### § 54.20 [Amended]

7. Section 54.20(a) is amended by deleting therefrom "54.40,".

8. Section 54.24 is amended to read as follows:

#### § 54.24 Applications.

Every application for a license under § 54.25 (a) and (c) shall be made on Form TG-12 (except that applications for export licenses shall be made on Form TG-15). Each application for a license shall be filed in duplicate with the Director, Office of Domestic Gold and Silver Operations, Treasury Department, Washington,



D.C. 20220. Every applicant for a license under § 54.25 (a) or (c) shall state in his application whether or not any applications have been filed by or licenses issued to any partnership, association or corporation in which the applicant has a substantial interest or, if the applicant is a partnership, association or corporation, by or to a person having a substantial interest in such partnership, association or corporation. The Director, Office of Domestic Gold and Silver Operations, shall not issue any license to any person if in the judgment of the Director more than one license for the same purpose will be held for the principal use or benefit of the same persons or interests. Any person licensed under this subpart acquiring a principal interest in any partnership, association, or corporation, holding a license under this subpart for this purpose shall immediately so inform the Director, Office of Domestic Gold and Silver Operations.

9. Section 54.25 is amended by adding at the end thereof the following:

§ 54.25 Licenses.

\* \* \* \* \*

(c) *Licenses for the acquisition and holding, transportation, melting and treating, importing and exporting, and disposition of gold for the purpose of furnishing it for industry, profession or art.* (1) Upon receipt of the application specified in § 54.24 and after obtaining such additional information as is deemed necessary, the Director, Office of Domestic Gold and Silver Operations, shall, if satisfied that the applicant is qualified in all respects to conduct gold operations in full compliance with the provisions of this part and the provisions of a Treasury gold license, issue or cause to be issued to the applicant a license on the approved form, which shall permit the applicant to engage in the business of buying and selling gold required by authorized industrial, professional or artistic users.

(2) Licenses issued under this section and paragraph may authorize the licensee: (i) To acquire and hold gold for the purpose of selling such gold within the United States and its Possessions subject to the conditions and limitations which may be contained in the license; (ii) to transport such gold; (iii) to melt or treat gold or to have it melted or treated for the licensee's account to the extent necessary to meet the requirements of the industries, professions, arts or businesses to which licensee sells, or otherwise to meet the requirements of licensee's business; and (iv) to import gold for sale provided that the aggregate amount of all gold held after such importation does not exceed the maximum amount authorized to be held under the license.

(3) Exports are authorized to the extent permitted by paragraph (b) (2), (4) and (5) of this section or licenses issued thereunder.

(4) Sales of gold held pursuant to a license issued under this paragraph may be made to any other person holding a license hereunder.

(5) With respect to each transaction engaged in by licensees pursuant to licenses issued under this paragraph, including but not limited to each export of gold in any form, such information shall be furnished in such form and at such time as the Director, Office of Domestic Gold and Silver Operations, shall require under § 54.26(a).

(6) The aggregate amount of gold held by a licensee at any one time in any form or from any source, may not exceed the maximum amount authorized to be held under the license.

(7) Nothing contained in this paragraph or any license issued hereunder shall be deemed to allow the sale or delivery of gold to persons subject to the jurisdiction of the United States who are not authorized to acquire gold under the regulations in this part.

(d) *Prohibited transactions.* Persons subject to the regulations contained in this part are prohibited from engaging in transactions with a foreign monetary authority involving gold, regardless of form.

These amendments are effective upon publication in the FEDERAL REGISTER.

[SEAL]

HENRY H. FOWLER,  
Secretary of the Treasury.

## Organization and Procedure

### Exhibit 69.—Treasury Department orders relating to organization and procedure

#### No. 15, REVISION No. 2, OCTOBER 20, 1967.—INSPECTION OF GUARD FORCES

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and confirming the practice, in effect since 1957, pursuant to which the respective Bureaus have assumed responsibility for inspections of their guard forces, the U.S. Secret Service is hereby relieved of its responsibility to conduct annual inspections of the Bureau of Engraving and Printing guard force and the guard force under the supervision of the Director of the Bureau of the Mint. It is understood, however, that at such times as may be desirable and feasible, Secret Service will make inspections when requested by either of the above-mentioned Bureaus or when directed by me or by my delegate.

The provisions of Treasury Department Order No. 15 (Revision No. 1), dated May 14, 1953, are modified accordingly.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

#### No. 72, REVISED, JUNE 10, 1968.—DELEGATION OF AUTHORITY TO AUTHORIZE OR APPROVE TRAVEL

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, Revision No. 5, and pursuant to the provisions of Bureau of the Budget Circular No. A-7, Revised, it is hereby ordered that:

(1) The following officials of the Treasury Department may authorize or approve travel on official business of the Department performed by themselves or by civilian officers and employees under their jurisdiction:

Commissioner of Accounts  
Commissioner of Customs  
Director, Bureau of Engraving and Printing  
Commissioner of Internal Revenue  
Commissioner of the Public Debt  
Treasurer of the United States  
Comptroller of the Currency  
Director of the Mint  
National Director, U.S. Savings Bonds Division  
Director, U.S. Secret Service

These foregoing officials are authorized to redelegate this authority to appropriate subordinate officials.

(2) The exercise of the authority delegated by subparagraph (1) above, shall be subject to such administrative instructions and procedures as may be prescribed by the Assistant Secretary for Administration.

(3) This order becomes effective immediately and supersedes Treasury Department Order No. 72 Revised, dated October 12, 1965.

A. E. WEATHERBEE,  
*Assistant Secretary for Administration.*

#### No. 75, REVISED, JUNE 13, 1968.—DELEGATION OF AUTHORITY TO AUTHORIZE OR APPROVE TRAVEL AND TRANSPORTATION EXPENSES FOR EMPLOYEES TRANSFERRED TO A NEW POST OF DUTY

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, Revision No. 5, it is hereby ordered that:

(1) The following officials of the Treasury Department may authorize or approve the allowance and payment from Government funds of travel and trans-

portation expenses allowable under 5 U.S.C. 5721-5724a. and 5726-5730, as implemented by the regulations prescribed in Bureau of the Budget Circular No. A-56:

Commissioner of Accounts  
 Commissioner of Customs  
 Director, Bureau of Engraving and Printing  
 Commissioner of Internal Revenue  
 Commissioner of the Public Debt  
 Treasurer of the United States  
 Comptroller of the Currency  
 Director of the Mint  
 National Director, U.S. Savings Bonds Division  
 Director, U.S. Secret Service

These foregoing officials are authorized to redelegate this authority to appropriate subordinate officials.

(2) The exercise of the authority delegated by subparagraph (1) above, shall be subject to such administrative instructions and procedures as may be prescribed by the Assistant Secretary for Administration.

(3) This order becomes effective immediately and supersedes Treasury Department Order No. 75 Revised, dated May 29, 1962.

A. E. WEATHERBEE,

*Assistant Secretary for Administration.*

NO. 95, REVISION No. 2, APRIL 19, 1968.—ASSIGNMENT OF FUNCTIONS RELATING TO CONTROL AND CUSTODY OF UNISSUED FEDERAL RESERVE NOTES

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950 and under the authority vested in me by Treasury Order No. 190, Revision 4, it is hereby ordered that the functions relating to the control and custody of newly produced Federal Reserve notes currently performed by the Comptroller of the Currency and the Treasurer of the United States be henceforth assigned in the following manner:

1. In accordance with Section 418, Title 12, U.S.C., the Comptroller of the Currency will continue to cause plates and dies to be engraved and to have printed therefrom and numbered such quantities of Federal Reserve notes as may be required to supply the Federal Reserve banks.

2. In accordance with Section 419, Title 12, U.S.C., the Federal Reserve notes prepared shall be retained in custody by the Bureau of Engraving and Printing deposited to the order of the Comptroller of the Currency for their delivery to a Federal Reserve bank.

3. The Treasurer of the United States will be relieved of his present joint-custody responsibilities for Federal Reserve currency.

4. The Bureau of Engraving and Printing shall furnish to the Comptroller of the Currency and to the Treasurer of the United States, as the representative of the Secretary of the Treasury, data mutually agreed necessary to assure a continuous accounting of Federal Reserve currency printed.

The facilities and resources necessary to perform the functions as reassigned by this order shall be redistributed among the affected agencies as mutually determined and agreed to by the Comptroller of the Currency, the Treasurer of the United States, and the Director of the Bureau of Engraving and Printing.

This order shall become effective immediately. It supersedes Treasury Department Order No. 95 (Revision 1) dated July 20, 1955.

JOSEPH W. BARR

*Under Secretary of the Treasury.*

NO. 147-4, SEPTEMBER 22, 1967.—DESIGNATION OF AN ACTING DIRECTOR, OFFICE OF LAW ENFORCEMENT COORDINATION

By virtue of the authority vested in the Secretary of the Treasury, and by virtue of the authority vested in me by Treasury Department Order No. 190, Revision 4, Executive Assistant to the Special Assistant (for Enforcement) Charles C. Humpstone is designated, effective 12:01 a.m., September 22, 1967, to serve as Acting Director, Office of Law Enforcement Coordination, with the authority to perform all functions, without limitation, now authorized to be performed by the Director, Office of Law Enforcement Coordination. Mr. Humpstone will continue to serve in this capacity until further notice.

JOSEPH W. BARR,

*Under Secretary of the Treasury.*



No. 147-5, MARCH 29, 1968.—TRANSFER OF INTERPOL FUNCTIONS FROM THE BUREAU OF NARCOTICS TO THE OFFICE OF THE SECRETARY

By virtue of the authority vested in the Secretary of the Treasury, and by virtue of the authority vested in me by Treasury Department Order No. 190, Revision 4, it is hereby ordered that as of April 1, 1968, staff and operations services heretofore furnished by the Bureau of Narcotics to the United States representative to the International Criminal Police Organization (INTERPOL) are transferred to the Office of the Special Assistant to the Secretary (for Enforcement).

These services will be performed under the supervision of the Special Assistant (for Enforcement) and will consist of receipt, transmittal, processing, and handling of correspondence, inquiries, investigative referrals and the like from and to the Secretariat of INTERPOL and its individual national central bureaus.

The Special Assistant to the Secretary (for Enforcement) is designated as the U.S. representative to INTERPOL; and he will in that capacity deal with all questions relating to INTERPOL dues, INTERPOL functions, obligations of membership and agenda of and representation at INTERPOL conferences and General Assembly sessions.

Such positions, records, and equipment which are determined by the Assistant Secretary for Administration and the Commissioner of Narcotics in consultation with the Special Assistant to the Secretary (for Enforcement) to be necessary to the performance of the staff and operations services described above shall be transferred from the Bureau of Narcotics to the Office of the Secretary. Such funds as are necessary to the performance of the said services shall, for the period April 1, 1968, through June 30, 1968, be transferred to the Office of the Secretary.

This order supersedes Treasury Department Order No. 147-2 of March 23, 1967.

JOSEPH W. BARR,  
*Under Secretary of the Treasury.*

No. 156-1, REVISION No. 1, APRIL 10, 1968.—DELEGATION OF AUTHORITY TO MAKE WITHDRAWALS FROM TRUST AND DEPOSIT FUND ACCOUNTS

By virtue of the authority vested in me through Reorganization Plan No. 26 of 1950, and Treasury Department Order No. 190, there is delegated to the Commissioner of Accounts authority to approve schedules for withdrawals from all trust and deposit fund accounts administered by the Bureau of Accounts for the Secretary of the Treasury.

The authority delegated by this order may be redelegated to personnel of the Bureau of Accounts.

JOHN K. CARLOCK,  
*Fiscal Assistant Secretary.*

No. 165-20, JULY 17, 1967.—DELEGATION OF AUTHORITY TO AUTHORIZE PUBLICATION OF ADVERTISEMENTS, NOTICES, AND PROPOSALS

By virtue of the authority vested in the Secretary of the Treasury by 5 U.S.C. 302 and delegated to me by Treasury Department Order No. 190 (Revision 4), dated December 15, 1965, there is hereby delegated to the following officials of the Bureau of Customs the authority vested in the Secretary by Section 3828 of the Revised Statutes (44 U.S.C. 324) to authorize the publication of advertisements, notices and proposals in commercial newspapers, periodicals, and other media for the recruitment of personnel to serve in the Bureau of Customs:

Commissioner of Customs  
Deputy Commissioner of Customs  
Assistant Commissioner of Customs for Administration  
Director, Personnel Management Division

The administrative duties involved in accomplishing the advertising may be assigned to such subordinate officers as may be required.

A. E. WEATHERBEE,  
*Assistant Secretary for Administration.*

No. 173-3, AMENDMENT No. 1, DECEMBER 26, 1967.—REALIGNMENT OF HEADQUARTERS FUNCTIONS AND RESPONSIBILITIES IN THE UNITED STATES SECRET SERVICE

Pursuant to the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and pursuant to the author-

ity vested in me by Treasury Department Order No. 190 (Revision No. 4), the first paragraph of Treasury Department Order No. 173-3 is amended to read as follows:

"By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, the following offices are hereby established in the Headquarters of the United States Secret Service:

Director  
Deputy Director  
Assistant Director (Protective Intelligence)  
Assistant Director (Investigations)  
Assistant Director (Protective Forces)  
Assistant Director (Administration)  
Counsel  
Assistant to the Director (Inspection & Audit)  
Assistant to the Director (Public Affairs)"

JAMES P. HENDRICK,  
*Special Assistant to the Secretary*  
(for Enforcement).

No. 174, AMENDMENT No. 2, APRIL 26, 1968.—TRANSFER OF THE FUNCTION OF AUDITING AND VERIFYING THE INVENTORY OF UNISSUED STOCKS OF FEDERAL RESERVE NOTES

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950 and under the authority vested in me by Treasury Department Order No. 190, Revision 5, it is hereby ordered that the function of auditing and verifying the inventory of unissued stocks of Federal Reserve notes be transferred from the Bureau of Accounts to the Bureau of Engraving and Printing. The Bureau of Engraving and Printing will furnish certified copies of the results of audits made pursuant to this Order to the Board of Governors of the Federal Reserve System, to the Comptroller of the Currency and to the Treasurer of the United States.

This order supersedes and cancels Treasury Department Order 174, Amendment 1, of October 10, 1958, and paragraph 3 of Treasury Department Order No. 174 of May 27, 1953, and revokes the provisions of any other Treasury Department Order or authority issued prior hereto, which are in conflict with this order.

This Order shall become effective upon completion by the Bureau of Accounts of the verification of inventories of unissued Federal Reserve notes made in conjunction with the transfer of currency custody responsibilities ordered by Treasury Department Order No. 95 (Revision No. 2) dated April 19, 1968.

JOSEPH W. BARR,  
*Under Secretary of the Treasury.*

No. 177-24, OCTOBER 20, 1967.—DELEGATION OF AUTHORITY TO APPOINT UNIFORMED GUARDS AS SPECIAL POLICEMEN FOR A TEMPORARY PERIOD

1. Pursuant to the authority vested in the Secretary of the Treasury, including that vested in him by delegation from the Administrator of General Services 32 F.R. 11968 (1967), and pursuant to the authority vested in me by Treasury Department Order No. 190 (Revision 4):

(1) authority is hereby delegated to the Director of the United States Secret Service to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the Treasury Building and Treasury Annex, Washington, D.C.;

(2) authority is hereby delegated to the Director of the Bureau of Engraving and Printing to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the Bureau of Engraving and Printing and Bureau of Engraving and Printing Annex, Washington, D.C.

2. This delegation shall be effective immediately and shall remain in effect until 12:00 noon on Monday, October 30, 1967.

3. This authority shall be exercised in accordance with the Act of June 1, 1948 (62 Stat. 281).

JAMES POMEROY HENDRICK,  
*Special Assistant to the Secretary*  
(for Enforcement).

No. 177-25, NOVEMBER 28, 1967.—DELEGATION OF AUTHORITY TO APPOINT  
UNIFORMED GUARDS AS SPECIAL POLICEMEN

Pursuant to the authority vested in the Secretary of the Treasury, including that vested in him by delegation from the Administrator of General Services, 32 F.R. 11968 (1967), and pursuant to the authority vested in me by Treasury Department Order No. 190 (Revision 4) :

(1) authority is hereby delegated to the Director of the United States Secret Service to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the Treasury Building and Treasury Annex, Washington, D.C.;

(2) authority is hereby delegated to the Director of the Bureau of Engraving and Printing to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the Bureau of Engraving and Printing and Bureau of Engraving and Printing Annex, Washington, D.C.;

(3) authority is hereby delegated to the Director of the Bureau of the Mint to appoint uniformed guards as special policemen and to make all needful rules and regulations for the protection of the United States Mint, Denver, Colorado; the United States Bullion Depository, Fort Knox, Kentucky; the United States Assay Office, 32 Old Slip, New York, New York; the United States Mint, 16th and Spring Garden Streets, Philadelphia, Pennsylvania; the United States Assay Office, 155 Herman Street, San Francisco, Calif; and the United States Bullion Depository, West Point, New York.

The authority conferred by this order shall be exercised in accordance with the Act of June 1, 1948 (62 Stat. 281).

JOSEPH W. BARR,  
*Under Secretary of the Treasury.*

No. 190, REVISION No. 5, MARCH 26, 1968.—SUPERVISION OF BUREAUS AND  
PERFORMANCE OF FUNCTIONS IN THE TREASURY DEPARTMENT

1. The following bureaus, offices, and staff assistants shall be under the direct supervision of the Secretary and the Under Secretary :

Internal Revenue Service  
Office of the Comptroller of the Currency  
Assistant to the Secretary (National Security Affairs)  
Assistant to the Secretary (Public Affairs)  
Special Assistants to the Secretary  
Director, Executive Secretariat

2. The following bureaus, offices and other organizational units shall be under the general supervision of the Secretary and the Under Secretary and under the direct supervision of the officials indicated :

A. *Under Secretary for Monetary Affairs*

Deputy Under Secretary for Monetary Affairs  
Office of Financial Analysis  
Office of Domestic Gold and Silver Operations  
Office of Debt Analysis  
The Assistant Secretary (International Affairs)  
and the Fiscal Assistant Secretary, to the extent of  
their responsibilities for international and  
domestic monetary and fiscal policies  
Assistant to the Secretary (Debt Management)  
United States Savings Bonds Division

B. *General Counsel*

Legal Division  
Office of Director of Practice

C. *Assistant Secretary*

Bureau of Customs  
Bureau of Engraving and Printing  
Office of Congressional Relations

D. *Assistant Secretary (International Affairs)*

Office of International Affairs  
Office of Foreign Assets Control (Through Assistant  
to the Secretary for National Security Affairs)

E. *Assistant Secretary (Tax Policy, including international tax affairs)*

Office of Tax Legislative Counsel  
Office of Tax Analysis



- F. *Assistant Secretary*  
Bureau of the Mint  
Office of Employment Policy Program
- G. *Special Assistant to the Secretary (for Enforcement)*  
United States Secret Service  
Office of Law Enforcement Coordination
- H. *Fiscal Assistant Secretary*  
Bureau of Accounts  
Bureau of the Public Debt  
Office of the Treasurer of the United States
- I. *Assistant Secretary for Administration*  
Office of Administrative Services  
Office of Budget and Finance  
Office of Management and Organization  
Office of Personnel  
Office of Planning and Program Evaluation  
Office of Security

3. The Under Secretary, the Under Secretary for Monetary Affairs, the General Counsel, the Assistant Secretaries, and the Special Assistant for Enforcement, are authorized to perform any functions the Secretary is authorized to perform. Each of these officials shall perform functions under this authority in his own capacity and under his own title, and shall be responsible for referring to the Secretary any matter in which action should appropriately be taken by the Secretary. Each of these officials will ordinarily perform under this authority only functions which arise out of, relate to, or concern the activities or functions of or the laws administered by or relating to the bureaus, offices, or other organizational units over which he has supervision. Any action heretofore taken by any of these officials in his own capacity and under his own title is hereby affirmed and ratified as the action of the Secretary.

4. The following officers shall, in the order of succession indicated, act as Secretary of the Treasury in case of the death, resignation, absence, or sickness of the Secretary and other officers succeeding him, until a successor is appointed or until the absence or sickness shall cease:

- A. Under Secretary
- B. Under Secretary for Monetary Affairs
- C. General Counsel
- D. Presidentially appointed Assistant Secretaries in the order in which they took the oath of office as Assistant Secretary.

5. Treasury Department Order No. 190 (Revision 4) is rescinded, effective April 8, 1968.

JOSEPH W. BARR,  
*Acting Secretary of the Treasury.*

No. 193-1. REVISION No. 2, OCTOBER 26, 1967.—DELEGATION OF AUTHORITY TO THE DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS

Treasury Department Order No. 193-1, Rev. 1, dated January 19, 1967, is revised as follows:

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and by virtue of the authority vested in me as Under Secretary for Monetary Affairs by Treasury Department Order 190 (Revision 4), there is hereby delegated to the Director of the Office of Domestic Gold and Silver Operations all authority vested in the Secretary by Part 82 of Title 31 of the Code of Federal Regulations and all authority vested in me by Part 54 of Title 31 of the Code of Federal Regulations. Any action heretofore taken by the Director of the Office of Domestic Gold and Silver Operations which involved the exercise of authority hereby granted is affirmed and ratified.

The authority vested in the Director of the Office of Domestic Gold and Silver Operations by this order and by Parts 54, 81, and 93 of Title 31 of the Code of Federal Regulations may be delegated by him upon such terms and conditions as he deems appropriate.

FREDERICK L. DEMING,  
*Under Secretary of the Treasury for Monetary Affairs.*

No. 210, OCTOBER 6, 1967.—DESIGNATION OF THE DIRECTOR OF THE BUREAU OF  
ENGRAVING AND PRINTING

By virtue of the authority vested in me as the Secretary of the Treasury, Mr. James A. Conlon is designated Director, Bureau of Engraving and Printing, effective 12:01 a.m., October 9, 1967. Mr. Conlon will serve with the authority to perform all functions, without limitation, now authorized to be performed by the Director, Bureau of Engraving and Printing.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

No. 211, DECEMBER 21, 1967.—ESTABLISHMENT OF AN EXECUTIVE ASSIGNMENT  
BOARD

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and in order to carry out the objectives of Executive Order 11315 establishing an Executive Assignment System, I hereby establish and authorize in the Treasury (1) an Executive Assignment Board, (2) an Executive Assignment Committee of that Board, and (3) auxiliary boards, panels and committees as provided in Section 3 hereof. All of these units shall function in accord with regulations of the Civil Service Commission and of the Treasury Department, as approved in Civil Service Commission letter of December 5, 1967.

Section 1. *The Executive Assignment Board*

A. The permanent composition of the Executive Assignment Board is as follows:

Under Secretary of the Treasury-----	Chairman
Under Secretary for Monetary Affairs-----	Alternate Chairman
General Counsel-----	Member
Assistant Secretaries-----	Members
Commissioner of Internal Revenue-----	Member
Special Assistant to the Secretary (for Enforcement) -----	Member
Fiscal Assistant Secretary-----	Member
Assistant Secretary for Administration-----	Member
Director of Personnel-----	Executive Secretary

The Office of the Director of Personnel will provide administrative support to the Board. Action may be taken for the Board between meetings as provided in the bylaws by the Chairman (or Alternate Chairman), the member whose jurisdiction is involved, the Assistant Secretary for Administration, and the Director of Personnel.

B. The Board shall have the following functions:

(a) Approval of significant executive manpower policy planning, of staffing and utilization of executives, and of filling specific positions either in the Bureaus or the Office of the Secretary, as deemed necessary by the Under Secretary or as required.

(b) Approval of Executive Assignment Committee recommendations or review of actions, as deemed necessary by the Under Secretary, or as required.

(c) Approval of other matters relating to the Executive Assignment System as requested by the Under Secretary, or as required.

(d) Performance of the function of outside search for executive talent placed upon an Executive Assignment Board by Subchapter 3 of Chapter 305 of the Federal Personnel Manual, to the extent and in the manner authorized by the Civil Service Commission.

The Executive Assignment Board will develop its bylaws and begin operations immediately. It is desirable that some of the functions of the Board evolve gradually and after careful study. Therefore, the full functions of the Board will be activated in stages, as the Board deems appropriate.

Section 2. *The Executive Assignment Committee*

A. The permanent composition of the Executive Assignment Committee is as follows:

Under Secretary of the Treasury-----	Chairman
Assistant Secretary for Administration-----	Member
Director of Personnel-----	Member

*Ad hoc* members shall be other members of the Board, Bureau Heads, or members of Bureau Boards and Panels. Associate Members shall be Staff Representatives in the Office of the Assistant Secretary for Administration and of Staffs in the Bureaus who will provide administrative support.

B. The Committee shall have the following functions:

(a) Executive manpower-management planning, staffing and utilization in the Office of the Secretary and review of Bureau recommendations on these matters and on the staffing and filling of specific positions.

(b) Assessment of Office of the Secretary and Treasury Department long range executive manpower needs.

(c) Early identification of potential executive vacancies.

(d) Analysis of Office of the Secretary and Bureau executive manpower resources.

(e) Analysis of organizational structure.

(f) Review of Bureau recommendations for Outside Search.

(g) Approval of all other Executive Assignment System matters except in cases where Executive Assignment Board action is deemed necessary by the Under Secretary, or as required.

Section 3. *Establishment of Auxiliary Boards, Panels and Committees*

The Executive Assignment Committee may establish auxiliary boards and subcommittees. Heads of Bureaus and Offices may establish, with the approval of the Assistant Secretary for Administration or the Director of Personnel, such auxiliary boards, panels and committees or subcommittees as may be necessary to effectuate the Executive Assignment System.

HENRY H. FOWLER,  
*Secretary of the Treasury.*

No. 213, MARCH 12, 1968.—TRANSFER OF FUNCTIONS WITHIN THE BUREAU OF THE MINT

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, and by virtue of the authority vested in me as Assistant Secretary of the Treasury by Treasury Department Order No. 190 (Revision 4), I hereby transfer, effective March 12, 1968, all of the functions of the superintendent of the coining department of the Mint at Philadelphia and all of the functions of the superintendent of that Mint, with respect to striking of national and other medals, to the Director of the Mint, to be performed by her through such officers and employees of the Bureau of the Mint and at such Mint institution or institutions as she may designate.

ROBERT A. WALLACE,  
*Assistant Secretary of the Treasury.*



No. 212, JANUARY 29, 1968.—OFFICIAL SEAL OF THE DEPARTMENT OF THE TREASURY

Whereas I have caused to be made, pursuant to 5 U.S.C. 301 and 31 U.S.C. 1002 and 1008, a seal for the Treasury Department, the design of which accompanies and is hereby made a part of this order and which is described, in heraldic terms, as follows:

Arms: Or, a chevron azure between in chief a pair of balanced scales and in base a key ward downward to dexter, both azure, with 13 mullets argent on the chevron.

The arms are displayed upon a circular background of American blue. Within a legend ring surrounding the arms and circumscribed by two concentric white rings appears the inscription *The Department of the Treasury* in white capital letters of Cheltenham Bold font. Also within the legend ring, directly below the base of the shield, appears the date 1789 in white numerals of Cheltenham Bold font.

And whereas the central device of the seal is essentially the same as that used by Treasury throughout its entire history; and

Whereas it appears that this seal is of suitable design and appropriate for use as the official seal of the Treasury Department;

Now, therefore, by virtue of the authority vested in me as the Secretary of the Treasury, I hereby approve this seal as the official seal of the Treasury Department, provided that the Treasury seal currently in official use, including the dies, rolls, plates, and like devices now in the possession of the Bureau of Engraving and Printing, shall continue to be equally effective as the official seal of the Treasury Department and shall continue to be so used by each Treasury officer and employee having possession of the device of the seal until that particular device needs to be replaced and is replaced.

HENRY H. FOWLER,  
*Secretary of the Treasury.*



## Advisory Committees

### EXHIBIT 70.—Advisory committees utilized by the Department of the Treasury under Executive Order 11007

During the fiscal year 1968, the advisory committees listed below were continued in use or newly established after a finding of public interest by the Secretary of the Treasury in accordance with the requirements of Executive Order 11007, dated February 26, 1962. The information concerning these committees is being published in the annual report in compliance with section 10 of the order.

#### Office of the Secretary

##### DEBT MANAGEMENT COMMITTEES

The Treasury Department, in connection with debt management duties, uses in an advisory capacity the services of a number of committees representing organizations which form a cross section of the American financial community. The committees meet periodically, at the invitation of the Treasury, to discuss and advise upon current and future Federal financings. The Treasury finds discussions with these advisory groups to be of great value, primarily in assessing the general market sentiment prior to a major refinancing of maturing obligations. Their recommendations are carefully considered by Treasury officials and serve as a part of the background environment for the final financing decisions. These committees are as follows:

American Bankers Association, Government Borrowing Committee  
Investment Bankers Association of America, Governmental Securities Committee  
National Association of Mutual Savings Banks, Committee on Government Securities and the Public Debt  
Life Insurance Association of America and American Life Convention, Joint Economic Policy Committee  
U.S. Savings and Loan League, National League of Insured Savings Associations, Advisory Committee on Government Securities  
Independent Bankers Association, Government Fiscal Policy Committee

Four meetings were held with the Government Borrowing Committee of the American Bankers Association in fiscal 1968, on July 26–27, October 24–25, January 30–31, and April 30–May 1.

Membership of the Committee was as follows:

Willis W. Alexander, Jr.	President, Trenton Trust Co., Trenton, Mo.
Henry T. Bodman	Chairman, National Bank of Detroit, Detroit, Mich.
Thomas O. Cooper	President, Jefferson State Bank, Jefferson, Iowa
George Champion	Chairman, The Chase Manhattan Bank, New York, N.Y.
Jack T. Conn	Chairman, Fidelity National Bank and Trust Co., Oklahoma City, Okla.
Archie K. Davis	Chairman, Wachovia Bank and Trust Co., Winston-Salem, N.C.
George S. Eccles	President, First Security Bank of Utah, Salt Lake City, Utah.
Robert V. Fleming	Advisory Chairman of the Board, The Riggs National Bank of Washington, D.C., Washington, D.C.
Robert Y. Empie	President, Stock Yards Bank, Oklahoma City, Okla.
William G. Foulke	President, Provident National Bank, Philadelphia, Pa.
James M. Kemper, Jr.	Chairman, Commerce Trust Company, Kansas City, Mo.
James P. Hickok	Chairman, First National Bank, St. Louis, Mo.
David M. Kennedy	Chairman, Continental Illinois National Bank and Trust Company, Chicago, Ill.

Frank L. King	Chairman, United California Bank, Los Angeles, Calif.
S. J. Kryzsko	President, Winona National and Savings Bank, Winona, Minn.
Murray Kyger	Chairman, The First National Bank, Fort Worth, Tex.
Frederick G. Larkin, Jr. (Chairman)	President, Security First National Bank, Los Angeles, Calif.
John J. Larkin	Senior Vice President, First National City Bank, New York, N.Y.
J. Howard Laeri	Vice Chairman, First National City Bank, New York, N.Y.
John A. Mayer	President, Mellon National Bank and Trust Company, Pittsburgh, Pa.
Robert P. Mayo	Vice President, Continental Illinois National Bank and Trust Co., Chicago, Ill.
George A. Murphy	Chairman, Irving Trust Company, New York, N.Y.
Kenneth V. Zwiener	Chairman, Harris Trust and Savings Bank, Chicago, Ill.
Rudolph A. Peterson	President, Bank of America N.T. & S.A., San Francisco, Calif.
James D. Robinson, Jr.	Chairman, The First National Bank of Atlanta, Atlanta, Ga.
James S. Rockefeller	Chairman, First National City Bank, New York, N.Y.
Robert G. Rouse	Partner, Laidlaw and Co., New York, N.Y.
Edward B. Smith	Chairman, The Northern Trust Co., Chicago, Ill.
Emmett G. Solomon	President, Crocker-Citizens National Bank, San Francisco, Calif.
William H. Moore	Chairman, Bankers Trust Company, New York, N.Y.
Paul I. Wren	President, Old Colony Trust Company, Boston, Mass.
Charls E. Walker	Executive Vice President and Executive Manager, The American Bankers Association, New York, N.Y.
William T. Heffelfinger	Federal Administrative Adviser, The American Bankers Association, Washington, D.C.
Thomas R. Atkinson	Director of Research, American Bankers Association, New York, N.Y.

Four meetings were held with the Governmental Securities Committee of the Investment Bankers Association in fiscal year 1968, on July 25-26, October 24-25, January 30-31, and April 30 and May 1.

Membership of the Committee was as follows:

Daniel S. Ahearn	Vice President, Wellington Management Co., Philadelphia, Pa.
Robert H. Bethke	Chairman, Executive Committee, Discount Corp. of New York, New York, N.Y.
Robert B. Blyth	Vice Chairman, The National City Bank, Cleveland, Ohio.
Alan K. Browne	Vice President, Bank of America, N.T. & S.A., San Francisco, Calif.
Carl F. Cooke	Senior Vice President, The First Boston Corporation, New York, N.Y.
G. Lamar Crittenden	Senior Vice President, The First National Bank, Boston, Mass.
Stewart A. Dunn	Senior Vice President and Director, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, N.Y.
Lester H. Empey	Senior Vice President, Wells Fargo Bank, San Francisco, Calif.
Tilford C. Gaines	Vice President, First National Bank of Chicago, Chicago, Ill.



Alfred H. Hauser	Executive Vice President, Chemical Bank New York Trust Company, New York, N.Y.
Alger J. Jacobs	Senior Vice President, Crocker-Citizens National Bank, San Francisco, Calif.
Ralph F. Leach	Executive Vice President and Treasurer, Morgan Guaranty Trust Company, New York, N.Y.
Eugene S. Lee	Executive Vice President, Valley National Bank, Phoenix, Ariz.
Edward D. McGrew	Senior Vice President, The Northern Trust Company, Chicago, Ill.
John H. Perkins	Senior Vice President, Continental Illinois National Bank and Trust Company, Chicago, Ill.
William W. Pevcar	Senior Vice President, Irving Trust Company, New York, N.Y.
Edward R. McMillan	Vice President, National Bank of Commerce, Seattle, Wash.
William E. Simon	Partner, Salomon Brothers & Hutzler, New York, N.Y.
Robert B. Rivel (Chairman)	Senior Vice President, The Chase Manhattan Bank, New York, N.Y.
Girard L. Spencer	Partner, Salomon Brothers and Hutzler, New York, N.Y.
Franklin Stockbridge	Senior Vice President, Security First National Bank, Los Angeles, Calif.
Robert W. Stone	Senior Vice President, National Bank of Detroit, Detroit, Mich.
Paul E. Uhl	Senior Vice President, United California Bank, Los Angeles, Calif.
C. Richard Youngdahl	President, Aubrey G. Lanston and Company, Inc., New York, N.Y.

The Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks did not meet in fiscal 1968.

Membership of the Committee was as follows:

Herman J. Arnott	President, The Farmers and Mechanics Savings Bank of Minneapolis, Minneapolis, Minn.
Charles F. Brau	President, The Kings County Savings Bank, Brooklyn, N.Y.
Edward P. Clark	President, Arlington Five Cents Savings Bank, Arlington, Mass.
George D. DeGrasse	President, Waltham Savings Bank, Waltham, Mass.
Paul F. Ely	President, The Brooklyn Savings Bank, Brooklyn, N.Y.
Charles B. Grubb	President, The Poughkeepsie Savings Bank, Poughkeepsie, N.Y.
Robert Horsfield	Executive Vice President, Dry Dock Savings Bank, New York, N.Y.
Howard L. Huxtable	President, Lynn Institution for Savings, Lynn, Mass.
William H. Harder	President, Buffalo Savings Bank, Buffalo, N.Y.
G. Churchill Francis	President, The Boston Five Cents Savings Bank, Boston, Mass.
Bernard H. Ineson	Senior Vice President and Treasurer, Providence Institution for Savings, Providence, R.I.
Edward F. McGinley, Jr.	President, Beneficial Mutual Savings Bank, Philadelphia, Pa.
Alfred C. Middlebrook	Senior Vice President, East River Savings Bank, New York, N.Y.
Barrett C. Nichols	Executive Vice President and Treasurer, Maine Savings Bank, Portland, Maine.
Lester J. Norcross	President, Syracuse Savings Bank, Syracuse, N.Y.
Frederick P. Smith	President, Burlington Savings Bank, Burlington, Vt.
Howard B. Smith	President, The Middletown Savings Bank, Middletown, Conn.

William H. Smith, 2d	President, Holyoke Savings Bank, Holyoke, Mass.
Harlan J. Swift	President, Erie County Savings Bank, Buffalo, N.Y.
Dr. Grover W. Ensley	Executive Vice President, National Association of Mutual Savings Banks, New York, N.Y.
Albert N. Place	President, Woonsocket Institution for Savings, Woonsocket, R.I.
Sheldon L. Ladd	President and Treasurer, The Meriden Savings Bank, Meriden, Conn.
William B. Licklider	President, The United States Savings Bank of Newark, Newark, N.J.
Theodore W. Lowen	President, Savings Banks Trust Company, New York, N.Y.
John W. Raber	President, The Green Point Savings Bank, Brooklyn, N.Y.
Norman C. Ramsey	President and Chairman of the Board, Broadway Savings Bank, New York, N.Y.
Leo F. Stanley	President, The New Haven Savings Bank, New Haven, Conn.
Saul B. Klamann	Vice President and Chief Economist, NAMSAB, New York, N.Y.
Robert R. Poston	Director-Counsel, NAMSAB, Washington, D.C.

No meeting was held with the Advisory Committee on Government Securities of the Savings and Loan Business in fiscal 1968.

Membership of the Committee was as follows:

C. L. Clements, Sr. (Chairman)	Chairman, Chase Federal Savings and Loan Association, Miami Beach, Fla.
Junius F. Baxter	President, Western Federal Savings and Loan Association, Denver, Colo.
James A. Aliber	Executive Vice President, First Federal Savings and Loan Assn., Detroit, Mich.
James E. Bent	Chairman of the Board, Hartford Federal Savings and Loan Association, Hartford, Conn.
Frederick Bjorklund	President, Minnesota Federal Savings and Loan Association, St. Paul, Minn.
Henry A. Bubb	President and Chairman of the Board, Capitol Federal Savings and Loan Association, Topeka, Kans.
E. Stanley Enlund	President, First Federal Savings and Loan Association, Chicago, Ill.
Jonathan M. Fletcher	President, Home Federal Savings and Loan Association, Des Moines, Iowa.
Lacy Bogges	President, Mutual Savings and Loan Association, Fort Worth, Tex.
W. O. DuVall	President, Atlanta Federal Savings and Loan Association, Atlanta, Ga.
Fred F. Enemark	Executive Vice President, Marin County Savings and Loan Association, San Rafael, Calif.
Richard G. Gilbert	President, The Citizens Savings Association, Canton, Ohio.
L. W. Grant, Sr.	Chairman, Home Federal Savings and Loan Association, Tulsa, Okla.
George E. Leonard	President and Chairman of the Board, First Federal Savings and Loan Association, Phoenix, Ariz.
Roy M. Marr	Chairman of the Board, Leader Federal Savings and Loan Association, Memphis, Tenn.
George A. Mooney	President, Washington Heights Federal Savings and Loan Association, New York, N.Y.
Gordon Mosentine	Treasurer, Minnesota Federal Savings and Loan Association, St. Paul, Minn.
A. D. Theobald	President, First Federal Savings and Loan, Peoria, Ill.

Donald A. Thompson	Senior Vice President, California Federal Savings and Loan Association, Los Angeles, Calif.
Gerrit Vander Ende	President and Chairman of the Board, Pacific First Federal Savings and Loan Association, Tacoma, Wash.
John W. Stradtler	President, National Permanent Savings and Loan Association, Washington, D.C.
James A. Hollensteiner	Assistant Secretary, U.S. Savings and Loan League, Chicago, Ill.

Two meetings were held with the Government Fiscal Policy Committee of the Independent Bankers Association on September 19, 1967, and May 6, 1968.

Membership of the Committee was as follows:

Milton J. Hayes (Chairman)	Vice President, American National Bank & Trust Co., Chicago, Ill.
S. E. Babington	President, Brookhaven Bank and Trust Co., Brookhaven, Miss.
Stanley R. Barber	President, Wellman Savings Bank, Wellman, Iowa.
W. F. Enright, Jr.	Senior Vice President, American National Bank of Saint Joseph, St. Joseph, Mo.
H. L. Gerhart, Jr.	President, The First National Bank of Newman Grove, Newman Grove, Nebr.
O. K. Johnson	President, Whitefish Bay State Bank, Milwaukee, Wis.
Marshall Barnes	President, Beaver Dam Deposit Bank, Beaver Dam, Ky.
Kenneth J. Benda	President, The Hartwick State Bank, Hartwick, Iowa.
Carl M. Floyd	Senior Vice President, The Fulton National Bank of Atlanta, Atlanta, Ga.
B. Meyer Harris	President, The Yellowstone Bank, Laurel, Mont.
John A. Jenkins	Board Chairman and President, Pinellas Central Bank & Trust Company, Largo, Fla.
Glenn H. Larson	President, First State Bank, Thompson Falls, Mont.
Rod L. Parseh	Executive Vice President, The Lapeer County Bank and Trust Company, Lapeer, Mich.
C. Herschel Schooley	IBAA Washington Office Manager, Washington, D.C.
O. M. Jorgenson	Chairman, Security Trust and Savings Bank, Billings, Mont.
R. C. Liddon	Chairman, The Security Bank, Corinth, Miss.
W. W. Marshall, Jr.	President, Commercial National Bank and Trust Co., Grand Island, Nebr.
T. H. Milner, Jr.	President, The National Bank of Athens, Athens, Ga.
Gene Moore	Secretary, Independent Bankers Association, Sauk Centre, Minn.
Herschel R. Page	President, Farmers and Merchants State Bank, Plankinton, S. Dak.

One meeting was held with the Joint Economic Policy Committee of the Life Insurance Association of America and American Life Convention in fiscal 1968, on August 8, 1967.

Membership of the Committee was as follows:

Richard K. Paynter, Jr.	Chairman of the Board, New York Life Insurance Company, New York, N.Y.
G. Daniel Brooks	Chairman of the Board, The National Life and Accident Insurance Company, Nashville, Tenn.
L. O. Copeland	President, North American Life Insurance Company of Chicago, Chicago, Ill.
Robert E. Dincen	Chairman of the Board and President, The Northwestern Mutual Life Insurance Company, Milwaukee, Wis.



R. Howard Dobbs, Jr.	President, Life Insurance Company of Georgia, Atlanta, Ga.
John T. Fey	President, National Life Insurance Company, Montpelier, Vt.
Edward M. Karmann	President, American United Life Insurance Company, Indianapolis, Ind.
John J. Magovern, Jr.	President, The Mutual Benefit Life Insurance Company, Newark, N.J.
Frederic M. Peirce	President, General American Life Insurance Company, St. Louis, Mo.
Henry R. Roberts	President, Connecticut General Life Insurance Company, Hartford, Conn.
Oleott D. Smith (Chairman)	Chairman, Aetna Life Insurance Company, Hartford, Conn.
Sterling T. Tooker	President, The Travelers Insurance Company, Hartford, Conn.
Charles R. Tyson	President, The Penn Mutual Life Insurance, Philadelphia, Pa.
Edward B. Rust	President, State Farm Life Insurance Company, Bloomington, Ill.
W. Roger Soles	President, Jefferson Standard Life Insurance Co., Greensboro, N.C.

*Staff Members of the Associations*

**American Life Convention:**

Lee Shield, Executive Vice President, Chicago, Ill.

**Life Insurance Association of America:**

Kenneth L. Kimble, Vice President and General Counsel, Washington, D.C.

Ralph J. McNair, Vice President, Federal Government Relations, Washington, D.C.

Blake Newton, President, Institute of Life Insurance, New York, N.Y.

Robert H. Parks, Assistant Director of Economic Research, New York, N.Y.

Benjamin F. Small, Executive Vice President, New York, N.Y.

Eugene M. Thoré, President, New York, N.Y.

**ADVISORY COMMITTEE ON CUSTOMS ADMINISTRATION**

This Committee was established October 20, 1966, with the approval of Secretary Fowler to enable the Treasury Department to maintain a regularly established mechanism of consultation with representatives of commercial and other private interests principally concerned with the administration of the customs laws and regulations. The Committee is intended to provide a forum for new ideas on simplification and streamlining of customs procedures.

The members of the Committee, which held no meetings in fiscal 1968, were as follows:

Joseph M. Bowman (Chairman)	Assistant Secretary of the Treasury
Matthew J. Marks (Vice Chairman)	Deputy to the Assistant Secretary of the Treasury
I. M. Bomba	President, National Council of American Importers, New York, N.Y.
J. David Brothers	First Vice President, American Trucking Associations, Richmond, Va.
Ralph Casey	President, American Merchant Marine Institute, Inc., New York, N.Y.
J. Bradley Colburn	President, Association of Customs Bar, New York, N.Y.
J. Edward Day	(Former Postmaster General of the United States) Sidley, Austin, Burgess & Smith, Washington, D.C.
Ralph Dewey	President, Pacific American Steamship Association, San Francisco, Calif.
Lester D. Johnson	Commissioner of Customs, Washington, D.C.

Daniel P. Loomis	President, Association of American Railroads, Washington, D.C.
Walter J. Mercer	President, National Customs Brokers & Forwarders Association of America, New York, N.Y.
John J. Murphy	President, National Customs Service Association, Edgewater, Md.
William J. Taylor	President, Railway Express Agency, Inc., New York, N.Y.
Stuart G. Tipton	President, Air Transport Association of America, Washington, D.C.

## REGIONAL AND DISTRICT ADVISORY COMMITTEES ON CUSTOMS ADMINISTRATION

The Secretary of the Treasury authorized the establishment, as of June 16, 1967, of three Regional Advisory Committees on Customs Administration, and 28 District Advisory Committees on Customs Administration. The Committees were established as part of a continuing effort to improve Government operations and communications with the public and business community on Customs matters.

The various Committees met informally during the year. The members of the Committees and the dates of their meetings during fiscal 1968 follow:

Region II (New York) meeting dates—October 10, 1967, and March 14, 1968.

Michael Stramiello (Chairman)	Regional Commissioner of Customs, New York, N.Y.
David F. Cardoza	Deputy Regional Commissioner of Customs, New York, N.Y.
Frank Hult	National Customs Brokers & Forwarders Association of America, Inc., New York, N.Y.
Caesar B. Patterini	General Manager, Port Authority, J.F.K. International Airport, New York, N.Y.
Alexander P. Chopin	Chairman, New York Shipping Association, New York, N.Y.
Thomas E. Honey	Association of the Customs Bar, New York, N.Y.
Al Shea	Kennedy Airport Airline Management Council, New York, N.Y.
Thomas W. Gleason	President, International Longshoremen's Association, New York, N.Y.
Donald T. Cameron	President, New York Foreign Freight Forwarders and Brokers Association, Inc., New York, N.Y.
Anthony J. Tozzoli	Manager, Marine Planning & Construction Division, Port of New York Authority, New York, N.Y.

Region V (New Orleans) meeting date—October 10, 1967.

Raymond F. Hufft (Chairman)	Regional Commissioner of Customs, New Orleans, La.
William St. John, Jr.	Vice President, W. R. Zanes & Co. of La., Inc., New Orleans, La.
Elgin Schwab, Sr.	Manager, Customs Division, Lykes Bros. Steamship Company, Inc., New Orleans, La.
Roy J. Dupre	Regional Sales Manager, Federal Barge Lines, Inc., New Orleans, La.
Salvador E. Bertucci	Freight Agent, L & N Railroad, Union Passenger Terminal, New Orleans, La.
B. B. Mullikin	District Manager, Gordons Transports, Inc., New Orleans, La.
Philip G. Seofield	Station Manager, Eastern Airlines, New Orleans International Airport, New Orleans, La.
Benjamin W. Yancey	Terriberry, Rault, Carroll, Yancey & Farrell, International Trade Mart, New Orleans, La.
Joseph B. Borel	President, Surety Association of Louisiana, New Orleans, La.

Edwin G. Jewett	Assistant Vice President, Foreign Trade Department, National Bank of Commerce, New Orleans, La.
Frank E. Beeson, Jr.	Vice President, Ryan Stevedoring Co., Inc., New Orleans, La.

Region VI (Houston) meeting dates—September 7, 1967, and June 13, 1968.

Cleburne M. Maier (Chairman)	Regional Commissioner of Customs, Houston, Tex.
Palmer F. King	Assistant Regional Commissioner of Customs, Houston, Tex.
Kenneth W. Wisecarver	Assistant Regional Commissioner of Customs, Houston, Tex.
James B. Swann	Director, Export Development, Texas Industrial Commission, Austin, Tex.
Gene Morgan	Division Director, La Domencia Corp., Heath Canyon, Tex.
R. W. Smith	Customhouse Broker, Vice President, National Customs Brokers Association, for the Gulf Coast Area, Houston, Tex.
Andre A. Crispin	Owner, The Crispin Company, Chairman, International Business Committee, Houston Chamber of Commerce, Houston, Tex.
J. H. Branard, Jr.	Vice President, Gulf Atlantic Warehouse, Houston, Tex.
John Lewis	Customhouse Broker, Laredo, Tex.
John A. Fasolino	Vice President-Field Marketing, Southwest Region Braniff International, Houston, Tex.
Ashley W. Lott	Vice President, Lykes Bros. Steamship Co., New Orleans, La.

The Boston, Mass., District held no meetings in fiscal 1968.

William J. Griffin (Chairman)	Regional Commissioner of Customs, Boston, Mass.
Joseph A. Curnane	District Director of Customs, Boston, Mass.
Carl Gilbert	Chairman of the Board, Gillette Safety Razor Co.; Chairman, Massachusetts Port Authority, Boston, Mass.
John Bresnahan	Executive Vice President, Massachusetts Motor Truck Association, Boston, Mass.
John Dennehy	President, Boston Shipping Association, Boston, Mass.
James Lynch	President, Boston Wool Trade Association, Boston, Mass.
Nelson Burke	President, Pennsylvania Petroleum Products Corp., Boston, Mass.
Gene Kelly	Pan American Airways, Logan International Airport, Boston, Mass.
Leo Pistorino	Pistorino & Co., Inc., Boston, Mass.
Ellis B. Hillgrove, Jr.	Executive Director, World Trade Center of New England, Boston, Mass.

Bridgeport, Conn., District meeting dates—October 11, 1967, and May 4, 1968.

Mrs. Gertrude M. Cwikla (Chairman)	District Director of Customs, Bridgeport, Conn.
Edward F. Curley	Assistant District Director of Customs, Bridgeport, Conn.
Douglas Bennett	Chairman, Connecticut Regional Export Expansion Council, Bridgeport, Conn.
Fred Biebel, Jr.	Executive Director, Wine & Spirits Wholesalers of Connecticut, Bridgeport, Conn.
William M. Denison	Secretary-Treasurer, Purchasing Agents Association of Connecticut, Bridgeport, Conn.
Manning Exton	International Trade Specialist, Connecticut Development Commission, Bridgeport, Conn.



Joseph Hannon	Executive Secretary, Brewers & Wholesalers Board of Trade, Bridgeport, Conn.
C. Frank Hitchcock	President, Motor Transport Association of Connecticut, Inc., Bridgeport, Conn.
John F. O'Brien	Executive Director, Connecticut Petroleum Council, Bridgeport, Conn.
H. B. Wetherell	Director, Aeronautics, Connecticut Department of Aeronautics, Bridgeport, Conn.
Frederick A. Rubin	Executive Director, Chamber of Commerce of Northwest Connecticut, Bridgeport, Conn.

Buffalo, N.Y., District meeting dates—October 12, 1967, and March 14, and April 10, 1968.

John F. Chilton (Chairman)	District Director of Customs, Buffalo, N.Y.
Harold B. Erlich	Director, Port Authority, Buffalo, N.Y.
Leland A. Wells	State of New York Representative, Buffalo, N.Y.
Edward T. Brick	Manager, Foreign Affairs & Transportation, Buffalo Chamber of Commerce, Buffalo, N.Y.
Fred Nefke	Supervisor, Customs Railway Express Agency, Buffalo, N.Y.
Edward J. Bennett	President (Management Group) Trucking Federation of Niagara Frontier, Inc., Buffalo, N.Y.
Frank Cronin	District Sales Manager, New York Central Railroad, Buffalo, N.Y.
Hugh Willis	Operations Manager, Buffalo & Fort Erie Public Bridge Authority, Buffalo, N.Y.
Alfred F. Crone	Executive Vice President, Brake Beam Company; Chairman, Public Affairs Committee, Central Railway Club, Buffalo, N.Y.
Peter Tower	C. J. Tower & Sons, Inc., Customhouse Brokers, Buffalo, N.Y.
Gordon Murphy	Kingsway Transportation Company, Transportation Industry Representative, Association of International Border Agencies, Buffalo, N.Y.
George Urban	Manager, Niagara Falls Bridge Commission, Niagara Falls, N.Y.
Jay Douglas	Manager, Niagara Falls Airport, Niagara Falls, N.Y.

Providence, R.I., District meeting dates—October 9, 1967, and November 13, 1967.

Alfred M. Dumouchel (Chairman)	District Director of Customs, Providence, R.I.
William E. Harper	Secretary & Treasurer, World Trade Club of the Greater Providence Chamber of Commerce, Providence, R.I.
John M. Fraser, Jr.	Vice President, Rhode Island Hospital Trust Co. (International Department), Providence, R.I.
Duncan W. Booth	Vice President, Industrial National Bank (International Department), Providence, R.I.
Robert N. Nelson	Vice President, Goff & Page Co. (Customs Brokers), Providence, R.I.
Herbert S. Lowell	Vice President, J. F. Moran Co. (Customs Brokers), Providence, R.I.
Blake Schultz	Chairman, Managers Conference of Airlines Operations, Theodore Francis Green Airport, Providence, R.I.
John J. Orr	President, Rhode Island Shipping Association Inc., Providence, R.I.
John V. Sylvia	President & Business Agent, International Longshoremen's Association, Local 1684, Providence, R.I.
Matthew J. Bento	Business Agent, International Longshoremen's Association, Local 1329, Providence, R.I.

Baltimore, Md., District meeting date—October 11, 1967.

Leslie L. Spiers (Chairman)	District Director of Customs, Baltimore, Md.
James P. McCann	Assistant District Director of Customs, Baltimore, Md.
Vincent J. McGettigan	Assistant District Director of Customs, Baltimore, Md.
M. Sigmund Shapiro	President, Customhouse Brokers & Forwarders Association, Baltimore, Md.
F. Peter Polimini	Foreign Commerce Representative, Maryland Port Authority, Baltimore, Md.
Maurice E. Curlee	Vice President, Lavship of Baltimore, Inc.; President, Steamship Trade Association, Baltimore, Md.
Robert McCormick	Airport Manager, Pan American Airways, Association of Scheduled Airlines of Baltimore, Md., Baltimore, Md.
Paul Welch	Public Relations, McCormick & Co., Inc., Baltimore, Md.
John Cotton	Station Manager, Eastern Airlines, Baltimore, Md.
Col. John Scott	Airport Director, Friendship International Airport, Baltimore, Md.
David H. Fishman	Associate Attorney, Gordon, Fienblatt & Rothman, Baltimore, Md.
Norbert J. Anderson	President, National Customs Service Association, Baltimore Branch, Baltimore, Md.

Norfolk, Va., District meeting date—October 5, 1967.

H. Singleton Garrett (Chairman)	District Director of Customs, Norfolk, Va.
John D. Seldon	Assistant District Director of Customs, Norfolk, Va.
Edmund T. Penzold, Jr.	Assistant District Director of Customs, Norfolk, Va.
James G. Page	Secretary, Customs Brokers Association, Norfolk, Va.
Robert Hasler	General Partner, Hasler & Co., Steamship Agents; Chairman, Hampton Roads Maritime Association Committee on Commerce & Transportation, Norfolk, Va.
James M. Crumbley	General Manager, Norfolk Ports & Industrial Authority, Norfolk, Va.
S. C. Bowman, Jr.	President, Virginia Highway Users Association; President, Virginia Hauling Co. of Richmond, Richmond, Va.
F. E. Dickerson	President, Lamberts Point Docks, Inc., Norfolk, Va.
Joseph D. Dean, Jr.	President, Burlington Industries Wool Co., Clarksville, Va.
Alfred Bernard III	Attorney, P. A. Agelasto, Norfolk, Va.
Henry W. McDermott, Jr.	Regional Vice President, National Customs Service Association Region III, Norfolk, Va.

Philadelphia, Pa., District meeting date—October 11, 1967.

Edward J. Henry (Chairman)	District Director of Customs, Philadelphia, Pa.
C. Everett Langhans	Assistant District Director of Customs, Philadelphia, Pa.
William J. Lawrence	Program Assistant, U.S. Customs, Philadelphia, Pa.
John Cook	Cargo Sales Officer, British Overseas Airway Corp., Philadelphia, Pa.
James Kelly	Deputy Director, Port Development, Delaware River Port Authority, Philadelphia, Pa.
William Keogh	Manager, Port Department, Lavino Shipping Co., Philadelphia, Pa.

Francis Muldoon	President, J. A. McCarthy Steamship Company; President, Philadelphia Marine Trade Association, Philadelphia, Pa.
Carson Simon	President, Freight Brokers, Forwarders & Customs Brokers Association, Philadelphia, Pa.
Thomas J. Farrell	President, National Customs Service Association, Philadelphia Branch, Philadelphia, Pa.

Miami, Fla., District meeting dates—September 14 and November 16, 1967.

James E. Townsend (Chairman)	District Director of Customs, Miami, Fla.
W. M. Stankiewicz	Assistant District Director of Customs, Miami, Fla.
F. Hennigan	Assistant District Director of Customs, Miami, Fla.
Carl Matusek	President, Carl Matusek, Inc., Miami, Fla.
L. Gorsettman	President, Customs Brokers & Forwarders Association, Miami, Fla.
John J. Otto	Miami Manager, Pan American Airways, Miami, Fla.
I. J. Stephens	Director, Dade County Seaport, Miami, Fla.
R. E. Lund	Customs Broker & Freight Forwarder, West Palm Beach, Fla.
W. T. Norton	Chief, Operations & Security, Miami International Airport, Miami, Fla.
David Aucamp	Manager, Port Everglades Operations Dept., Port Everglades, Fla.
Miss Sandra Osborne	Supervisor, Import Operations, Air Express International Agency, Miami, Fla.
George A. Smith	National Customs Service Association, Miami, Fla.

San Juan, P.R., District meeting dates—August 28 and November 15, 1967.

R. A. Torrens (Chairman)	District Director of Customs, San Juan, P.R.
Pedro R. Acevedo	Assistant District Director of Customs, San Juan, P.R.
Julio Barreto	Assistant District Director of Customs, San Juan, P.R.
Francisco Arroyo	Operations Supervisor, Sealand Service, Inc., San Juan, P.R.
Claudio Arce	Representative, New York Port Authority, San Juan, P.R.
John A. Fernandez	Airport Customer Service Manager, Pan American Airways, Inc., San Juan, P.R.
Fernin R. Morales	Customhouse Broker, San Juan, P.R.
Jaime Gonzalez Oliver	President, Travel Agents Association of Puerto Rico, San Juan, P.R.
Robert C. Stinson	General Manager, Railway Express Agency, Inc., San Juan, P.R.
J. M. Altieri	Customhouse Broker, San Juan, P.R.
Robert N. Altman	Customs Attorney, San Juan, P.R.
Agustine Benitez	Regional Director, AFL-CIO for Puerto Rico, San Juan, P.R.

Tampa, Fla., District meeting dates—July 27, 1967, and February 16, 1968.

A. B. Angle (Chairman)	District Director of Customs, Tampa, Fla.
Vernon R. Elarbee	Assistant District Director of Customs, Tampa, Fla.
Walter M. Cline	Assistant District Director of Customs, Tampa, Fla.
Sam Gaillard	President, Block Terminal, Inc., Shipping Agent, Lyke Bros., Tampa, Fla.
Jack Fitzgerald	Manager, Tampa Port Authority, Tampa, Fla.
George Beun	Manager, Tampa International Airport, Tampa, Fla.
Francis Sack	Customhouse Broker, Tampa, Fla.



Howard Baron	Manager, International Div., Florida Citrus Exchange, Tampa, Fla.
Arthur Henderson	Manager, Agency Services, Transoceanic Freight-ing Services, Tampa, Fla.
Julio Feijoo	Director, Pan American Commission, Tampa, Fla.
John E. Probst	Area Manager, Pan American Airways, Tampa, Fla.
David Rawls	Manager, Port Authority, Jacksonville, Fla.
John G. McGiffin	Customhouse Brokers & Freight Forwarder, Jacksonville, Fla.
George King	Manager, Port Authority, Cape Canaveral, Fla.
Raymond W. Gage	President, South Atlantic & Caribbean Ports Association; Executive Director, Florida Ports & Foreign Trade Council, Tampa, Fla.
Miss Sharon Gaiter	Executive Secretary, Bonanni Ship Supply Co., Tampa, Fla.
Raymond D. Clites	President, National Customs Service Association, Tampa, Fla.

New Orleans, La., District meeting date—October 4, 1967.

Milton LeBlanc (Chairman)	District Director of Customs, New Orleans, La.
David W. Tuttle	President, New Orleans Customhouse Brokers Association, New Orleans, La.
Thomas R. Spedden	President, Forwarding Agents & Foreign Brokers Association of New Orleans, New Orleans, La.
Salvatore Giallanza	Vice President, New Orleans Steamship Association, New Orleans, La.
John W. Merritt	Partner, R. H. Keen & Co., New Orleans, La.
Maurice Juge	President, A. M. Juge Co., New Orleans, La.
John J. Cruthirds	Vice President, Maloney Trucking & Storage, Inc., New Orleans, La.
Cecil M. Shilstone	President, Shilstone Laboratory, Inc., New Orleans, La.
Anthony A. Hernandez	President, New Orleans Branch, National Customs Service Association, New Orleans, La.

Mobile, Ala., District meeting dates—October 12, 1967, and March 19, 1968.

Clarence C. Howard (Chairman)	District Director of Customs, Mobile, Ala.
James T. Lee	Vice President, Page & Jones, Inc., Mobile, Ala.
R. S. Price	President, Mobile Steamship Association, Mobile, Ala.
John L. Godwin	President, Forwarding Agents & Foreign Freight Brokers Association of Mobile, Mobile, Ala.
D. M. Hargett	Vice President, DeVan Inspection Co., Inc., Mobile, Ala.
W. A. Stein	District Traffic Manager, Aluminum Company of America, Mobile, Ala.
Harvey L. Perry	President, Mobile Branch, National Customs Service Association, Mobile, Ala.
C. H. Haig, Jr.	General Traffic Manager, Alabama State Docks Department, Mobile, Ala.
John P. McKay	District Manager, Gordens Transport, Inc., Mobile, Ala.
B. L. Skinner	Assistant Freight Traffic Manager, Southern Railway System, Mobile, Ala.

Dallas and Fort Worth, Tex., District meeting date—October 10, 1967.

Harry G. Kelly (Chairman)	District Director of Customs, Houston, Tex.
W. W. Follett	Customs Port Director, Dallas, Tex.
D. W. Michael	Customs Port Director, Fort Worth, Tex.
Patrick S. Laey	Customs Port Director, Oklahoma City, Okla.
D. Dupre	Chamber of Commerce, Dallas, Tex.

E. R. Larmer	Chamber of Commerce, Fort Worth, Tex.
J. P. Little	Oklahoma City Chamber of Commerce, Oklahoma City, Okla.
M. Duensing	Tulsa Chamber of Commerce, Tulsa, Okla.
G. E. Posey	Customhouse Brokers Association, Houston, Tex.
W. O. Black	Central Freight Lines, Houston, Tex.

Laredo, Tex. District meeting date—September 16, 1967.

H. E. Outlaw (Chairman)	District Director of Customs, Laredo, Tex.
Merle L. Murphy	Customs Port Director, Brownsville, Tex.
Jose Cruz	Customs Port Director, Eagle Pass, Tex.
Ray A. Haux	Station Manager, American Airlines, San Antonio, Tex.
Frank Davila	Member, Board of Directors, Hemisfair '68, San Antonio, Tex.
T. H. Gonzalez	Customhouse Broker, Eagle Pass, Tex.
J. G. Guerra	Manager, Brownsville-Matamoros Bridge Co., Brownsville, Tex.
W. G. Hovel, Jr.	Customhouse Broker, Laredo, Tex.
L. D. Kerr	Kerr's Curios, San Antonio, Tex.
W. L. Webber	Traffic Manager, Texas-Mexican Railroad Co., Laredo, Tex.

El Paso, Tex., District meeting date—September 18, 1967.

R. H. Dwigans (Chairman)	District Director of Customs, El Paso, Tex.
John E. Martin	Martin Brokerage Co., El Paso, Tex.
Antonio J. Taylor	Old Mexico Shop, El Paso, Tex.
Bill Morrow	Western Vending Co.; Member International Relations Committee, Chamber of Commerce, El Paso, Tex.
Enrique Munoz Brohez	President, Chamber of Commerce, Juarez, Chih., Mexico.
T. J. Woodside	General Manager, American Smelting & Refining Co., El Paso, Tex.
Bishop L. Bailey, Sr.	Bailey Fluorspar Co., Marathon, Tex.

Galveston, Houston, and Port Arthur, Tex., Districts meeting date—October 3, 1967.

Harry G. Kelley (Co-Chairman).	District Director of Customs, Houston, Tex.
George L. C. Pratt (Co-Chairman).	District Director of Customs, Galveston, Tex.
Robert A. Cole (Co-Chairman)	District Director of Customs, Port Arthur, Tex.
E. H. Harder	Thomas J. Lipton, Inc., Galveston, Tex.
S. J. Webster, Sr.	Strachan Shipping Co., Galveston, Tex.
J. W. Campbell	Southern Pacific Co., Houston, Tex.
R. E. Reed	Hansen & Tidemann, Houston, Tex.
J. H. Raspberry	President, International Longshoremen's Association (1273), Galveston, Tex.
J. M. T. Stewart	International Longshoremen's Union, Houston, Tex.
W. W. Fitzpatrick, Jr.	Port Arthur Steamship Agency, Port Arthur, Tex.

Los Angeles, Calif., District meeting dates—October 4 and November 30, 1967, and January 17, and March 20, 1968.

William R. Knoke (Chairman)	District Director of Customs, Los Angeles, Calif.
Lewis E. Coppersmith	President, Foreign Trade Club of Southern California; President, Customhouse Brokers, Los Angeles, Calif.
Hauman J. DeLaey	President, Transportation Club of Southern California; General Freight Agent, Union Pacific Railroad, Los Angeles, Calif.

J. A. Berry	President, Southern California Terminal Operators Association, Los Angeles, Calif.
Miss Marjorie M. Shostak	Chairman, Import Legislation & Customs Committee, Los Angeles Chamber of Commerce; Customs Attorney, Stein & Shostak, Los Angeles, Calif.
John A. Sowers	Manager, World Trade Department, Los Angeles Chamber of Commerce, Los Angeles, Calif.
Francis V. Swanson	President, Los Angeles Steamship Association; Assistant Manager, Inter-Olsen Agencies, Los Angeles, Calif.
Robert L. Waggoner	Chairman, Customs Coordinating Committee, Los Angeles Air Cargo Association; President, International Customs Service, Inc., Los Angeles, Calif.
William D. White	Chairman, Licensed Customhouse Broker Association; President, Frank P. Dow Co., Los Angeles, Calif.
Clifford N. Bailey	Chairman, Los Angeles Orange Unit of the California Trucking Association, Los Angeles, Calif.
Jerome K. Nelson	National Vice President, National Customs Service Association, Los Angeles, Calif.

San Francisco, Calif., District meeting date—November 15, 1967.

Ben A. Burk (Chairman)	Regional Commissioner of Customs, San Francisco, Calif.
George K. Brokaw	District Director of Customs, San Francisco, Calif.
Paul A. Ahearn	Chairman, Air Facilitation Committee, San Francisco, Calif.
Ted L. Rausch	President, Customs Brokers & Freight Forwarders Association, San Francisco, Calif.
Don Van Iderstine	Manager, Freight Department, Pacific Far East Lines & Pacific Steamship Association, San Francisco, Calif.
Karl E. Giradi	President, San Francisco Chapter, National Customs Service Association, San Francisco, Calif.
A. S. Glickbarg	Board Chairman, Pacific Intermountain Express; and Member, American Trucking Association, San Francisco, Calif.
F. E. Kriebel	Vice President, Southern Pacific Railroad, San Francisco, Calif.
Tom Caylor	Chairman, World Trade Division, Chamber of Commerce, San Francisco, Calif.
Jack Gomperts	President, California Council for International Trade, San Francisco, Calif.
James Baker	Business Agent, Teamsters Local No. 85, San Francisco, Calif.

Seattle, Wash., District meeting date—November 17, 1967.

Ben A. Burk (Chairman)	Regional Commissioner of Customs, San Francisco, Calif.
Roy L. Peterson	District Director of Customs, Seattle, Wash.
George E. Harrison	District Manager, Transportational Services, Northwest Airlines, Seattle, Wash.
Joe Hansford	President, George S. Bush & Co.; President, Seattle Customs Brokers & Freight Forwarders Association, Seattle, Wash.
Walt Litch	Secretary, Puget Sound Steamship Operators Association, Seattle, Wash.
Frank O. Rasmussen	President, Washington Chapter, National Customs Service Association, Seattle, Wash.



Carl H. Pickrell	Foreign Freight Agent, Northern Pacific Railroad, Seattle, Wash.
Martin O'Rorke	Manager, World Trade & Transportation Department, Chamber of Commerce, Seattle, Wash.
J. Eldon Ophelm	General Manager, Port of Seattle, Seattle, Wash.
Oliver Olson	President, International Longshoremen's & Warehousemen's Union, Seattle, Wash.
Henry Levinger	Assistant Director, Port of Seattle's Trade & Development Department, Seattle, Wash.

The Juneau, Alaska, District held no meetings.

Ben A. Burk (Chairman)	Regional Commissioner of Customs, San Francisco, Calif.
William J. Ritchie	District Director of Customs, Juneau, Alaska.
Frank M. Murkowski	Commissioner, Department of Economic Development, State of Alaska, Juneau, Alaska
C. A. Schule	Chairman, Air Facilitation Committee, Northwest Airlines, International Airport, Anchorage, Alaska
Don Dickey	General Manager, Alaska State Chamber of Commerce, Juneau, Alaska
Ralph Sanders	Managing Director, Alaska Carriers Association, Juneau, Alaska
Cliff Taro	President, Southeast Stevedoring Corp., Ketchikan, Alaska
Henry Hedberg	Secretary-Treasurer, State Federation of Labor, AFL-CIO, Juneau, Alaska

The Honolulu, Hawaii, District held no meetings.

Ben A. Burk (Chairman)	Regional Commissioner of Customs, San Francisco, Calif.
Dr. Ernest I. Murai	District Director of Customs, Honolulu, Hawaii
Jack Ellis	Airport Service Manager, Pan American Airways; Chairman, Honolulu Air Facilitation Committee, Honolulu, Hawaii
Francis J. Kojima	President, American Customs Brokerage Co., Inc., Honolulu, Hawaii
W. Russell Starr	Vice President, Matson Navigation Co., Honolulu, Hawaii
Harry K. Brown, Jr.	President, Hawaii Branch, National Customs Service Association, Honolulu, Hawaii
Admiral E. A. Wright, USN (Retired)	Deputy Director for Operations, Dept. of Transportation, State of Hawaii, Honolulu, Hawaii
Walter Dodds, Jr.	Director of Advertising, Dillingham Corp., Honolulu, Hawaii

Chicago, Ill., District meeting dates—September 26, 1967, and January 16, 1968.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago Ill.
Heinz L. Herz (Co-Chairman)	District Director of Customs, Chicago, Ill.
Edward E. Russell	Assistant District Director of Customs, Chicago Ill.
Warren J. Simmons	Assistant District Director of Customs, Chicago, Ill.
Marcus J. Kitchelt	Customs Agent in Charge, Chicago, Ill.
William E. Downes, Jr.	Commissioner, Department of Aviation, City of Chicago, Chicago, Ill.
John J. Manley	Port Director, Department of the Port of Chicago, Chicago, Ill.
Robert A. Procknow	President, Importers Association of Chicago, Chicago, Ill.
Werner J. K. Burchard	Acting Executive Secretary, U.S. Great Lakes Shipping Association, Chicago, Ill.

William A. McGinty	President, Customhouse Brokers Association of Chicago, Inc., Chicago, Ill.
Vilas Johnson	Director, World Trade Division, Chicago Association of Commerce & Industry, Chicago, Ill.
Dimitri Tsohas	Chairman, International Air Carriers Association, Chicago, Ill.
William Noorlag, Jr.	General Manager, Central Motor Freight Association, Chicago, Ill.
Foy Phillips	Chairman, O'Hare Airlines Managers' Association, Chicago, Ill.
Vid Rapsys	President, International Air Cargo Association, Chicago, Ill.
John Shanahan	President, Chicago National Customs Service Association & Regional Vice President, Chicago, Ill.
Martin H. Plotnick	Chairman, Import Committee, International Trade Club, Chicago, Ill.
Maxim M. Cohen	General Manager, Chicago Regional Port District, Chicago, Ill.

Detroit, Mich., District meeting dates—October 3, 1967, and January 16, 1968.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
Louis A. Mezzano (Co-Chairman)	District Director of Customs, Detroit, Mich.
Walter R. Ottinger	Assistant District Director of Customs, Detroit, Mich.
Joseph Grubach	Assistant District Director of Customs, Detroit, Mich.
Kenneth R. Aschim	Customs Agent in Charge, Detroit, Mich.
John M. Grose	President, Detroit Customhouse Brokers & Foreign Freight Forwarders, Detroit, Mich.
Richard Daday	Chairman, Airport Facilitation Committee, Detroit, Mich.
John C. Ray	Member U.S. Customs Court Bar, Detroit, Mich.
John W. Kinsey	Manager, World Trade Department, Greater Detroit Board of Commerce, Detroit, Mich.
Heinz R. Bonsel	President, Detroit Chapter, U.S. Great Lakes Shipping Association, Detroit, Mich.
Jack McNamara	Manager, Michigan Trucking Association, Detroit, Mich.
Homer W. Rice	President, National Customs Shipping Association, Detroit, Mich.
Robert W. Ehinger	President, American Federation of Government Employees, Lodge No. 176, Detroit, Mich.
Thomas G. Ouelette	Second Vice President, International Banking Department, Manufacturers National Bank of Detroit, Detroit, Mich.

Duluth, Minn., District meeting date—September 28, 1967.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
C. L. Bingham (Co-Chairman)	District Director of Customs, Duluth, Minn.
D. E. Grimwood	Assistant District Director of Customs, Duluth, Minn.
M. D. Stark	Assistant District Director of Customs, Duluth, Minn.
Sven Hubner	President, Duluth-Superior Marine Assn., Duluth, Minn.
David W. Oberlin	Port Director, Seaway Port Authority of Duluth, Duluth, Minn.
John A. Cech	President, Twin-Ports Agents Association, Association of Railroad Agents, Duluth-Superior, Duluth, Minn.
Mrs. Lou V. Moe	Vice President, Norman G. Jensen, Inc., Duluth, Minn.

Theodore W. Svensson	Customhouse Broker, Duluth, Minn.
Melvin Maust	President, Twin Ports Motor Carriers Association, Duluth, Minn.
Robert Ion	Manager, Duluth International Airport & Sky Harbor Airport, Duluth, Minn.
Charles B. Ochis	Senior Agent, North Central Airlines, Duluth, Minn.
George A. Barber	President, Minnesota Border Branch, National Customs Service Association, International Falls-Ranier, Minn.

Cleveland, Ohio, District meeting date—October 10, 1967.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
John F. Kovacic (Co-Chairman)	District Director of Customs, Cleveland, Ohio
John K. Cooper	Assistant District Director of Customs, Cleveland, Ohio
Donald L. Cavanaugh	Assistant District Director of Customs, Cleveland, Ohio
Frank W. Durzenski	Customs Agent in Charge, Cleveland, Ohio
Lothar A. Kocberer	Executive Director, Cleveland World Trade Association, Cleveland, Ohio
Donald Brain	International Traffic Manager, Goodyear Tire & Rubber Co., Cleveland, Ohio
Noel Painechaud	Port Director, City of Cleveland, Cleveland, Ohio
John E. Doyle, Jr.	Commissioner of Airports, Cleveland, Ohio
Robert Loomis	Chairman, Cleveland Customhouse Brokers Association, Cleveland, Ohio
Walter Swanson	Chairman, Cleveland Maritime Association, Cleveland, Ohio
Thomas Coakley	President, Cleveland Stevedoring Co., Cleveland, Ohio
Herbert Lederer	President, Lederer Terminals, Cleveland, Ohio
George Fox	Stations Operations Manager, Air Canada, Cleveland, Ohio
R. W. Gresham	Secretary-Treasurer, Fenton Co., Cleveland, Ohio
Gillen H. Geierman	International Market Research Analyst, Eaton, Yale & Towne, Inc., Cleveland, Ohio
Warren Slater	National Customs Service Association, Cleveland, Ohio

Minneapolis, Minn., District meeting dates—September 27, 1967, and January 31, and April 24, 1968.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
Mrs. Marjorie Maki (Co-Chairman)	District Director of Customs, Minneapolis, Minn.
Gordon Christensen	Assistant District Director of Customs, Minneapolis, Minn.
Francis Fox	Assistant District Director of Customs, Minneapolis, Minn.
John M. Gleason	Norman G. Jensen, Inc., Customhouse Broker, Minneapolis, Minn.
Mike Bolnick	Executive Assistant to the President, Werner Transportation Co., Minneapolis, Minn.
John Homyak	Chairman, Airlines Manager Council, Minneapolis, Minn.
D. W. Weidt	President, Twin Cities Freight Agents Association, Minneapolis, Minn.
Miss Margaret Abbott	Import Director, Daytons, Inc., Minneapolis, Minn.
Robert J. Breidel	President, National Customs Service Association, Minneapolis, Minn.



Milwaukee, Wis., District meeting date—September 20, 1967.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
Walter P. Turek (Co-Chairman)	District Director of Customs, Milwaukee, Wis.
Frank Braun	Assistant District Director of Customs, Milwaukee, Wis.
Joseph Zaharias	Assistant District Director of Customs, Milwaukee, Wis.
Harry C. Brockel	Municipal Port Director, Milwaukee Board of Harbor Commissioners, Milwaukee, Wis.
Harold E. Gawlik	Manager, Domestic & International Trade, Metropolitan Milwaukee Association of Commerce, Milwaukee, Wis.
Richard Gardinier	President-Treasurer, M. E. Dey & Co., Inc., Milwaukee, Wis.
Frank Weber	Vice President, Salentine & Co., Inc., Milwaukee, Wis.
Ted Hanson	President, Hanson Seaway, Ltd., Milwaukee, Wis.
Earl Smith	Supervisor, Freight Operations, Milwaukee Terminal, Northwest Airlines, Milwaukee, Wis.
Robert Brown	Sales Manager, Consolidated Freightways, Milwaukee, Wis.
Larry Lehman	Manager of Taxes, A. O. Smith Corp., Milwaukee, Wis.
David A. Salentine	Secretary, Salentine & Co., Inc., Milwaukee, Wis.
Arnold E. Anderson	President, National Customs Service Association, Milwaukee, Wis.

St. Louis, Mo., District meeting date—September 20, 1967.

Fred R. Boyett (Co-Chairman)	Regional Commissioner of Customs, Chicago, Ill.
Joseph P. Garrity (Co-Chairman)	District Director of Customs, St. Louis, Mo.
Charles L. Schwier	Assistant District Director of Customs, St. Louis, Mo.
Lowell J. Pfenning	Assistant District Director of Customs, St. Louis, Mo.
J. Steinback	Owner, Missouri Flower & Feather Co., St. Louis, Mo.
W. L. Eilermann	Administrative Assistant to the Manager, Browning Arms Co., St. Louis, Mo.
R. Brooks	Claim Agent, Gordon Transports, Inc., St. Louis, Mo.
W. N. Epstein	Customs Specialist, J. F. Goldkamp & Co., St. Louis, Mo.
Hector R. Dominquez	Vice President, First National Bank, St. Louis, Mo.
B. J. Bowdon	Manager, Metal & Ore Department, American Zinc Co., St. Louis, Mo.
Lowell Burns	Director, Department of Trade Developments Chamber of Commerce, St. Louis, Mo.
K. L. Borgmier	Cargo Sales Manager, Transworld Airlines, Inc., St. Louis, Mo.
Charles L. Schwier	National Customs Service Association, St. Louis, Mo.

## ADVISORY COMMITTEE ON INTERNATIONAL MONETARY ARRANGEMENTS

The purpose of the Advisory Committee on International Monetary Arrangements is to provide to the Treasury Department advice and recommendations with respect to the development of means of assuring an adequate supply of world liquidity through international monetary arrangements. The Committee consists of persons representing the U.S. segment of the international financial community and of economists specializing in financial and international monetary affairs. The functions of the Committee are solely advisory.

Formation of the Committee was announced on July 3, 1965. During fiscal 1968, the Committee held 7 meetings with the Secretary of the Treasury and other Government officials on August 17, November 3, November 28, January 9, February 23, March 27, and April 18.

Membership of the Committee was as follows:

Douglas Dillon (Chairman)	Former Secretary of the Treasury, New York, N.Y.
Francis M. Bator	Professor of Political Economy, Harvard University, Cambridge, Mass.
Edward M. Bernstein	Economic consultant specializing in international monetary policy, Washington, D.C.
Kermit Gordon	President, Brookings Institution, Washington, D.C.
Walter W. Heller	Professor of Economics, University of Minnesota, Minneapolis, Minn.
Andre Meyer	Senior Partner, Lazard Freres and Co., New York, N.Y.
David Rockefeller	President, Chase Manhattan Bank, New York, N.Y.
Robert V. Roosa	Partner, Brown Bros. Harriman & Co., New York, N.Y.
Frazar B. Wilde	Chairman Emeritus, Connecticut General Life Insurance Co., Hartford, Conn.

## ADVISORY COMMITTEE ON PENSION PLANS

The Advisory Committee on Pension Plans was established on January 19, 1967, by the Treasury Department. The panel furnishes advice to the Department in connection with its current review of the rules for integrating pension, annuity, profit-sharing, and stock bonus plans with old-age, survivors, and disability insurance benefits provided under the Social Security Act, as amended in 1965.

The Committee met on March 12, 1968.

The panel of consultants included the following:

Morton C. Bernstein	Professor of Law, Ohio State University, Columbus, Ohio.
Herman C. Biegel	Attorney, Lee, Toomey & Kent, Washington, D.C.
Richard H. Bullen	Vice President and Group Executive, International Business Machines Corp., Armonk, N.Y.
Earl F. Cheit	Professor of Business Administration, University of California, Berkeley, Calif.
Marion B. Folsom	Director, Eastman Kodak Co., Rochester, N.Y.
Leonard Lesser	General Counsel, Industrial Union Dept., AFL-CIO, Washington, D.C.
William Lowe	Vice President and Treasurer, Inland Steel Co., Chicago, Ill.
Dan McGill	Chairman, Pension Research Council, University of Pennsylvania, Philadelphia, Pa.
Thomas H. Paine	Partner, Hewitt Associates, New York, N.Y.
Bert Seidman	Director, AFL-CIO Social Security Dept., Washington, D.C.
Eugene M. Thoré	President, Life Insurance Association of America, New York, N.Y.
Marvin M. Wilf	Attorney, White & Williams, Philadelphia, Pa.

## NEW YORK PIER COMMITTEE

Establishment of the New York Pier Committee was approved by a memorandum dated January 31, 1966, from the Secretary of the Treasury to Assistant Secretary True Davis.

The function of the Committee is to achieve minimum facility improvements to the appearance and functional efficiency of five New York City passenger piers utilized by the majority of passenger vessels calling at New York. The Committee met on December 4, 1967, and was abolished December 20, 1967.

The membership in fiscal year 1968 follows:

True Davis (Chairman)	Assistant Secretary of the Treasury, Treasury Department, Washington, D.C.
Leo E. Brown }	Commissioner, Department of Marine and Aviation, City of New York, New York, N.Y.
Herbert B. Halberg }	General Manager for the United States and Canada, Italian Line, New York, N.Y.
Dr. Ottone Empoldi	Chairman of the Board, American Export Isbrandtsen Lines, Inc., New York, N.Y.
Adm. John M. Will	Vice President, United States Lines Co., New York, N.Y.
Frank C. Grant	President, Cunard Steamship Co., Ltd., New York, N.Y.
C. N. Anderson	Deputy General Manager, Cunard Steamship Co., Ltd., New York, N.Y.
A. L. Harbin	General Manager for U.S.A., Canada, and Mexico, French Line, New York, N.Y.
Jacques Dougnet	Barewald, Porco & DeBore, New York, N.Y.
Timothy P. Sullivan	

## TREASURY CONSULTATIVE COMMITTEE OF THE BUSINESS COUNCIL

The Secretary of the Treasury proposed this Committee May 8, 1965, "to keep up a two-way exchange and dialog on areas of mutual concern to the Treasury and to the business community." The Consultative Committee consists of members of the Business Council from major industrial and financial sectors. The functions of the Committee are solely advisory.

Formation of the Committee was announced on July 8, 1965. During fiscal 1968, the Committee held two meetings with the Secretary of the Treasury and other Treasury officials on August 21 and December 6.

Membership of the Committee during fiscal 1968 was as follows:

Harold Boeschstein (Chairman)	Chairman, Owens-Corning Fiberglas Corp., New York, N.Y.
Eugene N. Beesley	President, Eli Lilly & Co., Indianapolis, Ind.
Roger M. Blough	Chairman, United States Steel Corp., New York, N.Y.
Bert S. Cross	President, Minnesota Mining & Mfg. Co., St. Paul, Minn.
Paul L. Davies	Senior Partner, Lehman Bros., New York, N.Y.
Frederic G. Donner	Chairman, General Motors Corp., New York, N.Y.
G. Keith Funston	Chairman, Olin Mathieson Chemical Corp., New York, N.Y.
Thomas S. Gates, Jr.	President, Morgan Guaranty Trust Co., New York, N.Y.
Frank R. Milliken	President, Kennecott Copper Corp., New York, N.Y.
David Packard	Chairman, Hewlett-Packard Co., Palo Alto, Calif.
Sidney J. Weinberg	Partner, Goldman, Sachs & Co., New York, N.Y.
Henry S. Wingate	Chairman, The International Nickel Co., Inc., New York, N.Y.

*Ex officio member*

Albert L. Nickerson	Chairman of the Board, Mobil Oil Corp., New York, N.Y.
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**Commissioner of Customs****JOINT CUSTOMS/AIRLINE WORKING GROUP ON AIR CARGO**

This Group was established by memorandum dated May 8, 1964, from the Secretary of the Treasury to the Commissioner of Customs.

The functions of the Group are to review industry procedures for handling air cargo and related customs procedures for the assessment and collection of duties and taxes on imported merchandise; to determine if these procedures can be integrated into a system to provide a simplified method of clearance with a minimum of delay and provide adequate controls for customs purposes.

The members of the Group, which met in fiscal year 1968 on November 8, 1967, and March 6, 1968, were as follows:

G. H. Heidebreder (Chairman)	Deputy Director, Division of Inspection and Control, Bureau of Customs, Treasury Department, Washington, D.C.
E. G. Wing	Operations Officer, Bureau of Customs, Treasury Department, Washington, D.C.
Albert J. Francis, Jr.	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
Edward J. Doyle	Assistant Director, Office of Regulations and Rulings, Bureau of Customs, Treasury Department, Washington, D.C.
John D. Robison	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
John B. O'Loughlin	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
J. R. Gorson	Manager-Facilitation, Air Transport Association, Washington, D.C.
S. W. McMillion	Manager-Traffic Agreements and Procedures, United Air Lines, Chicago, Ill.
L. M. Rogers	Director, Traffic Administration, American Airlines, New York, N.Y.
Jay L. Sheppard	Manager-Facilitation, Pan American Airways, New York, N.Y.
F. Johnson	British Overseas Airways Corporation, New York, N.Y.
R. W. Williams	Director, Customs Service, Seaboard World Airlines, Inc., JFK International Airport, Jamaica, N.Y.
E. J. Miller	Manager-Travel Facilitation, Trans World Airlines, New York, N.Y.

**Commissioner of Internal Revenue****ADVISORY GROUP TO THE COMMISSIONER OF INTERNAL REVENUE**

This Group was established by the Commissioner of Internal Revenue on June 17, 1959.

This Committee, which represents professional and other private groups concerned with Federal taxation, provides constructive criticism of Internal Revenue policies and procedures and suggests ways in which the Service can improve its operations.

The Advisory Group met on September 14-15, and December 18-19, 1967, and March 14-15, and June 13-14, 1968.

The membership in fiscal 1968 follows:

Bernard Barnett	C.P.A., New York, N.Y.
Carl W. Brieske	The Kroger Company, Cincinnati, Ohio
Edwin S. Cohen	University of Virginia Law School, Charlottesville, Va.
Raymond E. Graichen	C.P.A., Philadelphia, Pa.
Harding L. Lawrence	Braniff Airways, Dallas, Tex.
Leonard Lesser	AFL-CIO, Washington, D.C.
A. Byrne Litschgi	Attorney, Tampa, Fla.

Max E. Meyer  
 John S. Nolan  
 Edwin J. Reimann  
 Ernest L. Wehner  
 Robert M. Winokur

Attorney, Chicago, Ill.  
 Attorney, Washington, D.C.  
 Public Accountant, Salt Lake City, Utah  
 C.P.A., Houston, Tex.  
 Attorney, San Francisco, Calif.

#### ART ADVISORY PANEL TO THE COMMISSIONER OF INTERNAL REVENUE

This Panel was established by the Commissioner of Internal Revenue on February 1, 1968.

This Committee, representing the three major segments of the art world—museums, universities, and dealers—provides advice to the Internal Revenue Service on the valuation of works of art for Federal tax purposes.

The Art Panel met on February 13-14, and June 13-14, 1968.

The membership of the Panel in fiscal 1968 follows:

Dr. Richard F. Brown  
 Charles C. Cunningham  
 Louis Goldenberg  
 Dr. Sherman E. Lee

Director, Kimbell Foundation, Ft. Worth, Tex.  
 Director, Art Institute of Chicago, Chicago, Ill.  
 Art Dealer, Wildenstein & Co., New York, N.Y.  
 Director, Cleveland Museum of Art, Cleveland, Ohio

Edward R. Lubin  
 A. Hyatt Mayor

Art Dealer, E. R. Lubin, Inc., New York, N.Y.  
 President, Hispanic Society of America, New York, N.Y.

Allan McNab  
 Prof. Charles Seymour, Jr.  
 Gordon Mackintosh Smith

Art Consultant, La Pointe, Wis.  
 Yale University, New Haven, Conn.  
 Director, Albright-Knox Art Gallery, Buffalo, N.Y.

Eugene V. Thaw

Art Dealer, E. V. Thaw Co., New York, N.Y.

#### Comptroller of the Currency

#### ADVISORY COMMITTEE ON INTERNATIONAL BANKING

This Committee was formed on October 2, 1964, by the Comptroller of the Currency to provide the Comptroller with technical advice and suggestions which are essential to effective supervision of the international financial activities of national banks.

The members of this Committee, which met in fiscal year 1968 on May 28, 1968, were as follows:

Frederick Heldring (Acting  
 Chairman)  
 Luis F. Corea

Senior Vice President, Philadelphia National Bank, Philadelphia, Pa.

G. A. Costanzo

Senior Vice President, The Riggs National Bank of Washington, Washington, D.C.

Clarence L. Hulford

Executive Vice President, First National City Bank, New York, N.Y.

Alfred F. Miossi

Senior Vice President, The National Bank of Commerce of Seattle, Seattle, Wash.

Matthew P. Murphy

Vice President, Continental Illinois National Bank, Chicago, Ill.

J. Warren Olmsted

Senior Vice President, Republic National Bank of Dallas, Dallas, Tex.

Herbert P. Patterson

Executive Vice President, First National Bank of Boston, Boston, Mass.

Wm. Walter Phelps, Jr.

Executive Vice President, Chase Manhattan Bank, N.A., New York, N.Y.

Roland Pierotti

Vice President, Mellon National Bank and Trust Company, Pittsburgh, Pa.

Richard L. Thomas

Executive Vice President, Bank of America N.T. & S.A., San Francisco, Calif.

Merlyn N. Trued

Executive Vice President, The First National Bank of Chicago, Chicago, Ill.

Senior Vice President, Central National Bank of Cleveland, Cleveland, Ohio

## CONSULTING COMMITTEE OF BANK ECONOMISTS

On November 23, 1965, the Comptroller announced the appointment of a consulting committee of bank economists which included seven national bank economists.

This Committee's function was to advise the Comptroller and his staff and work with the National Advisory Committee. The Committee's primary responsibility was to bring their specialized experience and technical knowledge to bear on current problems of banking policy and practice.

The members of this Committee, which met in the fiscal year 1968 on October 18 were as follows:

John J. Balles (Chairman)	Vice President and Chief Economist, Mellon National Bank and Trust Co., Pittsburgh, Pa.
William F. Butler	Vice President, Chase Manhattan Bank, N.A., New York City, N.Y.
James M. Dawson	Vice President and Economist, The National City Bank of Cleveland, Cleveland, Ohio
Herbert E. Johnson	Vice President and Economist, Continental Illinois National Bank and Trust Co. of Chicago, Chicago, Ill.
Leif H. Olsen	Vice President in charge of Economics Department, First National City Bank, New York City, N.Y.
Leslie C. Peacock	Vice President and Economist, Crocker-Citizens National Bank, San Francisco, Calif.
Eugene C. Zorn, Jr.	Vice President and Economist, Republic National Bank of Dallas, Dallas, Tex.
William J. Korsvik	Vice President, The First National Bank of Chicago, Chicago, Ill.
Walter E. Hoadley	Senior Vice President, Economics, Bank of America, N. T. & S. A., San Francisco, Calif.

## INVESTMENT SECURITIES ADVISORY COMMITTEE

In 1962 the Comptroller of the Currency established the Investment Securities Advisory Committee. The purpose of the Committee was to advise the agency on matters pertaining to the regulations concerning investment securities.

Members of the Committee, who met in fiscal 1968 on July 26 and January 31 were as follows:

John H. Perkins (Chairman)	Vice President, Continental Illinois National Bank and Trust Co. of Chicago, Chicago, Ill.
George E. Barnett	Vice President, First National City Bank, New York, N.Y.
Arthur H. Quinn, Jr.	Vice President, Philadelphia National Bank, Philadelphia, Pa.
Early F. Mitchell	Senior Vice President, First National Bank of Memphis, Memphis, Tenn.
Alan K. Browne	Vice President, Bank of America, San Francisco, Calif.
Lewis F. Lyne	Senior Vice President, Mercantile National Bank, Dallas, Tex.
Thomas L. Ray	Vice President, Mercantile Trust Co., St. Louis, Mo.
Wesley G. Schelke	Vice President, Seattle First National Bank, Seattle, Wash.
James G. Wilson	Vice President, The National Shawmut Bank, Boston, Mass.
Franklin Stockbridge	Senior Vice President, Security First National Bank, Los Angeles, Calif.
Albert W. Gray	Vice President, Northwest Bankcorporation, Minneapolis, Minn.
Robert Rivel	Senior Vice President, The Chase Manhattan Bank, N. A., New York, N.Y.



## NATIONAL ADVISORY COMMITTEE ON BANKING POLICIES AND PRACTICES

On October 4, 1965, the Comptroller of the Currency appointed this Committee, composed of leading bankers. The Committee has participated in a cooperative effort to bring the thinking of the banking community to bear on the many matters of national concern in which the banking industry is vitally involved.

Meetings of this Committee were held in fiscal 1968 on November 1, and June 7. Members of the Committee are as follows:

George S. Moore (Chairman)	Chairman of the Board, First National City Bank, New York, N.Y.
Robert C. Baker	Chairman of the Board and President, American Security and Trust Co., Washington, D.C.
Henry T. Bodman	Chairman of the Board, National Bank of Detroit, Detroit, Mich.
George Champion	Chairman of the Board, The Chase Manhattan Bank, N.A., New York, N.Y.
Kenton R. Cravens	Chairman of the Board, Mercantile Trust Co., N.A., St. Louis, Mo.
Roger C. Damon	President, The First National Bank of Boston, Boston, Mass.
G. Morris Dorrance, Jr.	President, The Philadelphia National Bank, Philadelphia, Pa.
George S. Eccles	President, First Security Bank of Utah, N.A., Ogden, Utah
J. A. Elkins, Jr.	Chairman of the Board, First City National Bank of Houston, Houston, Tex.
John S. Fangboner	Chairman of the Board and Chief Executive Officer, The National City Bank of Cleveland Cleveland, Ohio.
Sam M. Fleming	President, Third National Bank in Nashville, Nashville, Tenn.
Robert D. H. Harvey	Vice Chairman of the Board and Chief Executive Officer, Maryland National Bank, Baltimore, Md.
William M. Jenkins	Chairman of the Board, Seattle-First National Bank, Seattle, Wash.
David M. Kennedy	Chairman of the Board, Continental Illinois National Bank and Trust Co. of Chicago, Chicago, Ill.
Mills B. Lane, Jr.	President, The Citizens and Southern National Bank, Atlanta, Ga.
Frederick G. Larkin, Jr.	President, Security First National Bank, Los Angeles, Calif.
Homer J. Livingston	Chairman of the Board, The First National Bank of Chicago, Chicago, Ill.
John A. Mayer	Chairman of the Board, Mellon National Bank and Trust Co., Pittsburgh, Pa.
J. E. Patrick	President, Valley National Bank of Arizona, Phoenix, Ariz.
R. A. Peterson	President, Bank of America National Trust and Savings Association, San Francisco, Calif.
Edward J. Ruetz	Chairman and President, Kenosha National Bank, Kenosha, Wis.
W. Harry Schwarzschild, Jr.	President, The Central National Bank, Richmond, Va.
Robert H. Stewart III	President, First National Bank in Dallas, Dallas, Tex.
Norfleet Turner	Chairman of the Board, First National Bank of Memphis, Memphis, Tenn.

## REGIONAL ADVISORY COMMITTEES ON BANKING POLICIES AND PRACTICES

On November 11, 1965, the Comptroller of the Currency established 14 Regional Advisory Committees on Banking Policies and Practices to assist the agency in a continuing review aimed at keeping bank regulation abreast of the Nation's needs.

The Committees' membership and the dates of the regional meetings during fiscal 1968 follow:

Region 1 meeting date—April 3, 1968.

Harlan L. Goodwin (Chairman)	President, The First National Bank of Portsmouth, Portsmouth, N.H.
Ralph A. McIninch (Vice Chairman)	President, Merchants National Bank, Manchester, N.H.
Gardner L. Brown	President, First Agricultural National Bank of Berkshire County, Pittsfield, Mass.
Edward L. Clifford	President, Worcester County National Bank, Worcester, Mass.
Michael A. Gammino, Jr.	President, Columbus National Bank of Rhode Island, Providence, R.I.
Alexander Hawley	President, Connecticut National Bank, Bridgeport, Conn.
Joseph P. Healey	President, Middlesex County National Bank, Everett, Mass.
David C. Hewitt	Chairman, Hartford National Bank and Trust Company, Hartford, Conn.
John Hunter, Jr.	President, Vermont National Bank, Brattleboro, Vt.
Lawrence H. Martin	President, National Shawmut Bank, Boston, Mass.
H. C. Owen, Jr.	President, The First National Bank of Attleboro, Attleboro, Mass.
H. Alan Timm	President, First National Granite Bank, Augusta, Maine

Region 2 meeting dates—November 10, 1967 and April 5, 1968.

Frederick Sundermann (Chairman)	President, National Bank of Westchester, White Plains, N.Y.
Robert R. Ferguson, Jr. (Vice Chairman)	President, First National State Bank of New Jersey, Newark, N.J.
D. Victor Bornn	President, Virgin Islands National Bank, Charlotte Amalie, St. Thomas, V.I.
John G. Hewitt	President, First Merchants National Bank, Asbury Park, N.J.
Elwood F. Kirkman	President, The Boardwalk National Bank, Atlantic City, N.J.
Stuart McCarty	President, First-City National Bank of Binghamton, Binghamton, N.Y.
Horace G. Moeller	President, Colonial National Bank, Haddonfield, N.J.
W. E. Roosevelt	President, The National State Bank, Elizabeth, N.J.
E. Perry Spink	Chairman, Liberty National Bank and Trust Company, Buffalo, N.Y.
William L. Stachle	President National Community Bank of Rutherford, Rutherford, N.J.
Peter White	President, Republic National Bank of New York, New York, N.Y.
James I. Wyckoff	President, The National Bank of Geneva, Geneva, N.Y.

Region 3 meeting date—April 17, 1968.

William B. Brosius (Chairman)	President, National Bank of Chester County and Trust Co., West Chester, Pa.
S. H. Carl Bear	Chairman of the Board, The Merchants National Bank of Allentown, Allentown, Pa.
Charles H. Bracken	President, Marine National Bank, Erie, Pa.
William G. Foulke	President, Provident National Bank, Philadelphia, Pa.
Russell E. Gardner	President, The Hanover National Bank of Wilkes-Barre, Wilkes-Barre, Pa.
James B. Grieves	Former President, The Union National Bank of Pittsburgh, Pittsburgh, Pa.

Owen D. Griffith	President, United States National Bank in Johnstown, Johnstown, Pa.
F. B. Lansberry	President, County National Bank, Clearfield, Pa.
George L. Morrison, Jr.	President, The Harrisburg National Bank and Trust Co., Harrisburg, Pa.
Norman P. Mortensen	President, First National Bank of Mercer County, Greenville, Pa.
A. Dean Swift, Jr.	President, The First National Bank of Williamsport, Williamsport, Pa.
Richard P. Zimmerman	Chairman of the Board, National Valley Bank and Trust Co., Chambersburg, Pa.

Region 4 meeting dates—November 9, 1967, and April 25, 1968.

Philip F. Searle (Chairman)	President, The Northeastern Ohio National Bank, Ashtabula, Ohio
Thomas G. Bartlett	President, The Owensboro National Bank. Owensboro, Ky.
W. C. Fisher	Chairman, Liberty National Bank and Trust Company, Louisville, Ky.
LeRoy M. Miles	President, First Security National Bank & Trust Co., Lexington, Ky.
M. C. Oberhelman	President, The Citizens National Bank of Evansville, Evansville, Ind.
Harland E. Paige	Chairman, First National Bank of Akron, Akron, Ohio
Richard P. Raish	President, The First National Bank, Bellevue, Ohio
Paul E. Shaffer	Executive Vice President, Fort Wayne National Bank, Fort Wayne, Ind.
L. A. Stoner	President, The Ohio National Bank of Columbus, Columbus, Ohio
R. E. Sweeney, Jr.	President, Merchants National Bank & Trust Co. of Indianapolis, Indianapolis, Ind.
Burr S. Swezey, Jr.	Chairman and President, Lafayette National Bank, Lafayette, Ind.
E. Paul Williams	President, The Second National Bank, Ashland, Ky.

Region 5 meeting dates—October 26, 1967, and May 16, 1968.

Adrian L. McCardell (Chairman)	President, The First National Bank of Maryland, Baltimore, Md.
William S. Jenkins (Vice Chairman)	President, The First National Bank and Trust Company of Western Maryland, Cumberland, Md.
Luther S. Berr	Executive Vice President, The Union National Bank of Clarksburg, Clarksburg, W. Va.
S. Thomas Cox	President, The First National Bank of Altavista, Altavista, Va.
Wilbur M. Feltner	President, Farmers and Merchants National Bank, Winchester, Va.
W. Wright Harrison	President, Virginia National Bank, Norfolk, Va.
Paul Hinkle	President, The Charleston National Bank, Charlestown, W. Va.
C. C. Hope, Jr.	First Executive Vice President, First Union National Bank of North Carolina, Charlotte, N.C.
B. L. Jackson, Jr.	President, The First National Bank of Bluefield, Bluefield, W. Va.
Archie W. McLean	President, The Planters National Bank & Trust Co., Rocky Mount, N.C.
Thomas E. Sebrell, III	President, First and Citizens National Bank, Alexandria, Va.
Douglas R. Smith	Chairman and President, National Savings & Trust Co., Washington, D.C.



## Region 6 meeting date—May 29, 1968.

Godfrey Smith (Chairman)	President and Chairman, Capital City First National Bank of Tallahassee, Tallahassee, Fla.
Guy W. Botts	President, Barnett First National Bank, Jacksonville, Fla.
William W Bruner	President, First National Bank of South Carolina, Columbia, S.C.
J. E. Bryan	President, Union Trust National Bank of St. Petersburg, St. Petersburg, Fla.
C. S. Daley	President, Fourth National Bank of Columbus, Columbus, Ga.
William H. Dial	President, First National Bank at Orlando, Orlando, Fla.
W. A. Hobbs, Jr.	President, First National Bank of Pompano Beach, Pompano Beach, Fla.
C. A. Knowles	President, First National Bank of Griffin, Griffin, Ga.
Hugh C. Lane	Chairman, Citizens and Southern National Bank of South Carolina, Charlotte, S.C.
G. E. Patterson	President, Liberty National Bank & Trust Co. of Savannah, Savannah, Ga.
Edward D. Smith	President and Chief Executive Officer, The First National Bank of Atlanta, Atlanta, Ga.
Leonard A. Usina	Chairman, Peoples National Bank of Commerce, Miami, Fla.

## Region 7 meeting date—October 18, 1967.

Roland A. Mewhort (Chairman)	President, Manufacturers National Bank of Detroit, Detroit, Mich.
John A. Douglas	President, The First National Bank in Champaign, Champaign, Ill.
J. C. Hauser	President, Belleville National Savings Bank, Belleville, Ill.
H. A. Jacobson	President, American National Bank & Trust Co. of Michigan, Kalamazoo, Mich.
Harold Meidell	Chairman, LaSalle National Bank, Chicago, Ill.
Travis W. Pearce	Chairman and President, The National Bank of Jackson, Jackson, Mich.
Howard J. Stoddard	Chairman, Michigan National Bank, Lansing, Mich.
D. P. Stone	Chairman, First National Bank of Peoria, Peoria, Ill.
Allen P. Stults	President, American National Bank & Trust Co. of Chicago, Chicago, Ill.
G. J. Trauten	President, The First National Bank of Rock Island, Rock Island, Ill.
A. D. Van Meter, Jr.	President, Illinois National Bank of Springfield, Springfield, Ill.
P. R. Wilkinson	President, The National Lumberman's Bank & Trust Co., Muskegon, Mich.

## Region 8 meeting date—June 18, 1968.

W. W. Campbell (Chairman)	Chairman, First National Bank of Eastern Arkansas, Forrest City, Ark.
John P. Wright (Vice Chairman)	President, American National Bank & Trust Co., Chattanooga, Tenn.
Walter Barnes	President, First National Bank, Jackson, Tenn.
John A. Hand	President, First National Bank of Birmingham, Birmingham, Ala.
Robert M. Hearin	President, First National Bank, Jackson, Miss.
Clyde Hendrix, Jr.	President, The Hibernia National Bank in New Orleans, New Orleans, La.
Earl L. McCarroll	President, Union National Bank, Little Rock, Ark.

A. R. McDonnell	President, Citizens National Bank, Meridian, Miss.
Frank A. Plummer	President, First National Bank of Montgomery, Montgomery, Ala.
Walter W. Schroeder	President, First National Bank of Lafayette, Lafayette, La.
R. L. Vanderpool, Jr.	President, The Ouachita National Bank in Monroe, Monroe, La.
H. S. Walters	Chairman, Hamilton National Bank, Morristown, Tenn.

Region 9 meeting date—September 9, 1967.

Joseph R. Hartz (Chairman)	President, The First National Bank of Stevens Point, Stevens Point, Wis.
A. M. Eriksmoen (Vice Chairman)	President and Chairman, Dakota National Bank of Fargo, Fargo, N. Dak.
A. E. Dahl	Chairman, National Bank of South Dakota, Sioux Falls, S. Dak.
Ora G. Jones, Jr.	President, Goodhue County National Bank, Red Wing, Minn.
George F. Kasten	President, First Wisconsin National Bank of Milwaukee, Milwaukee, Wis.
Richard J. Lewis	President, American National Bank and Trust Co., Eau Claire, Wis.
Philip H. Nason	President, The First National Bank of Saint Paul, St. Paul, Minn.
Thomas E. Olson	President, The First National Bank, Starbuck, Minn.
Harold C. Refling	Chairman of the Board, The First National Bank, Fessenden, N. Dak.
John M. Rose	President, Kellogg-Citizens National Bank, Green Bay, Wis.
R. H. Walrath	President and Trust Officer, First National Bank of Watertown, Watertown, S. Dak.

Region 10 meeting dates—September 8, 1967, and May 15, 1968.

Barret S. Heddens, Jr. (Chairman)	President, The First National Bank of Kansas City, Kansas City, Mo.
Robert M. Buntin (Vice Chairman)	Chairman and President, The Merchants National Bank of Topeka, Topeka, Kans.
Calvin W. Aurand	President, Iowa-Des Moines National Bank, Des Moines, Iowa.
Henry G. Blanchard	President, The Commercial National Bank of Kansas City, Kansas City, Kans.
Robert A. Brown	President, The Home National Bank of Arkansas City, Arkansas City, Kans.
Clarence Coleman	President, Union National Bank of Wichita, Wichita, Kans.
Morris F. Miller	President, Omaha National Bank, Omaha, Nebr.
John B. Mitchell	President, First National Bank in St. Louis, St. Louis, Mo.
J. O. Peck	Chairman of the Board, First National Bank & Trust Co., Columbus, Nebr.
Albert M. Price	Executive Vice President, The Boone County National Bank of Columbia, Columbia, Mo.
Carleton C. Van Dyke	President, The Troy National Bank, Sioux City, Iowa.
Burnham Yates	President, First National Bank & Trust Co. of Lincoln, Lincoln, Nebr.

Region 11 meeting date—May 11, 1968.

T. C. Frost, Jr. (Chairman)	President, Frost National Bank, San Antonio, Tex.
Paul Mason (Vice Chairman)	President, The First National Bank of Fort Worth, Fort Worth, Tex.

James W. Aston	Chairman, Republic National Bank of Dallas, Dallas, Tex.
John P. Butler	Chairman of the Board, The First National Bank, Midland, Tex.
Richard King III	Chairman, Corpus Christi State National Bank, Corpus Christi, Tex.
George G. Matkin	Chairman, State National Bank of El Paso, El Paso, Tex.
F. G. McClintock	Chairman, First National Bank & Trust Co. of Tulsa, Tulsa, Okla.
A. W. Riter, Jr.	President, The Peoples National Bank, Tyler, Tex.
Ford Simmons	President, Exchange National Bank & Trust Co., Ardmore, Okla.
Irvin M. Shlenker	Vice Chairman, Houston National Bank, Houston, Tex.
Earl Sneed	Vice President and Assistant to the President, The Liberty National Bank & Trust Co., Oklahoma City, Okla.
J. D. Wilkinson	President, The Waggoner National Bank, Waggoner, Tex.

## Region 12 meeting date—June 20, 1968.

Melvin J. Roberts (Chairman)	President, Colorado National Bank of Denver, Denver, Colo.
A. B. Robbs, Jr. (Vice Chairman)	Chairman of the Board, Continental National Bank, Phoenix, Ariz.
P. N. Dawson	Chairman of the Board, First National Bank in Boulder, Boulder, Colo.
W. M. Gallaway	President, Farmington National Bank, Farmington, N. Mex.
Jackson F. King	Chairman, First National Bank of Casper, Casper, Wyo.
J. W. Pearson	President, The First National Bank, Lovell, Wyo.
P. L. Rice	Chairman of the Board, First National Bank, Loveland, Colo.
D. E. Scott	President, The Routt County National Bank, Steamboat Springs, Colo.
Roy W. Simmons	President, Zions First National Bank, Salt Lake City, Utah
A. H. Trautwein	President, Cheyenne National Bank, Cheyenne, Wyo.
R. L. Tripp	President, Albuquerque National Bank, Albuquerque, N. Mex.
Robert D. Williams	President, First National Bank of Arizona, Phoenix, Ariz.

## Region 13 meeting dates—October 20, 1967, and May 9, 1968.

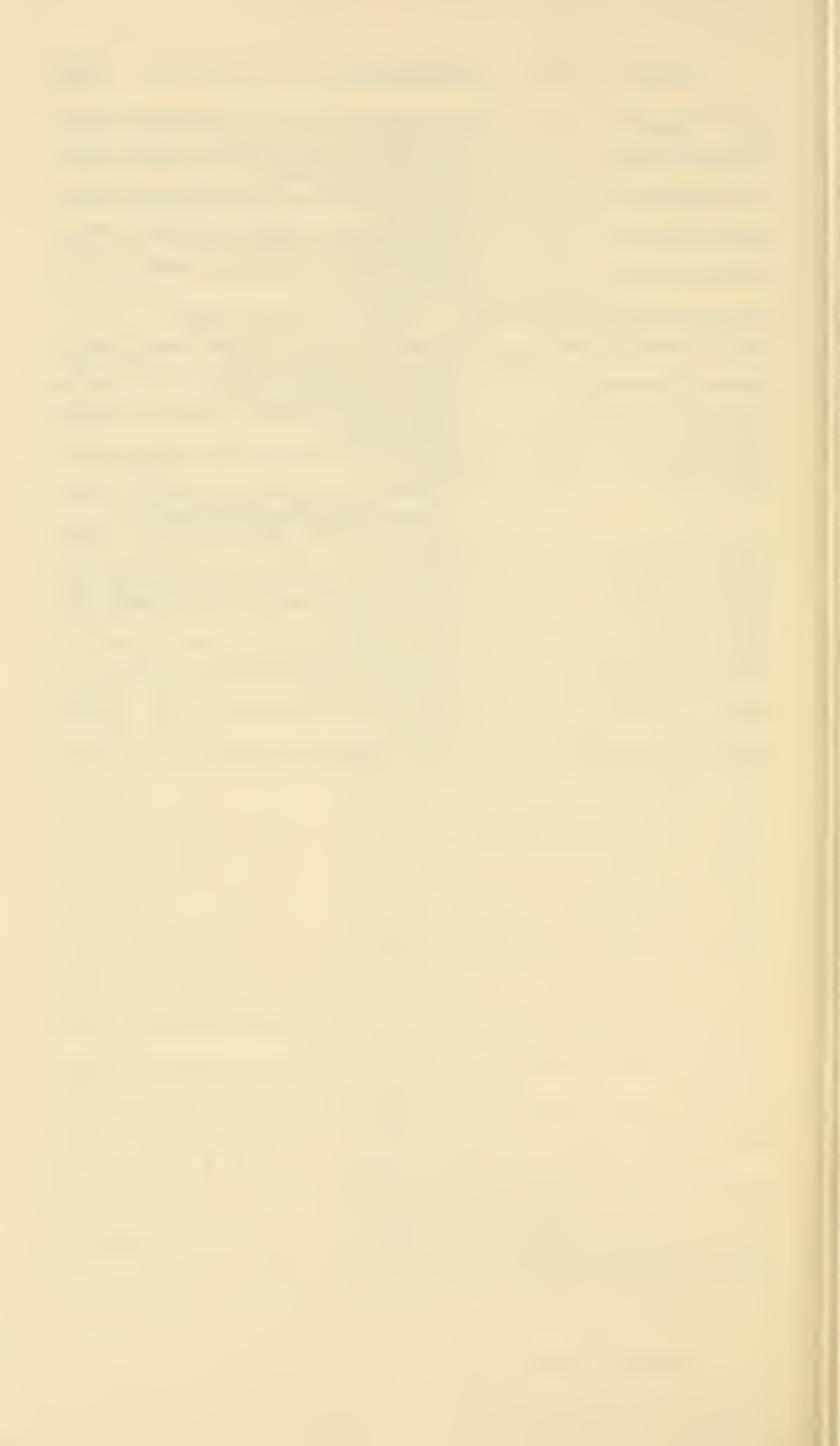
Forrest C. Hedger (Chairman)	President, The Great Falls National Bank, Great Falls, Mont.
Harold A. Rogers (Vice Chairman)	President, Peoples National Bank of Washington, Seattle, Wash.
C. H. Brocksmith	President, First Security Bank of Glasgow, Glasgow, Mont.
Ralph J. Comstock, Jr.	President, First Security Bank of Idaho, Boise, Idaho.
D. H. Cuddy	President, The First National Bank of Anchorage, Anchorage, Alaska.
L. A. Frazier	President, Fidelity National Bank of Twin Falls, Twin Falls, Idaho.
E. J. Kolar	Chairman of the Discount Committee, United States National Bank of Oregon, Portland, Oreg.



H. M. Ormseth	Vice President, First National Bank and Trust Company, Helena, Mont.
Willard R. Rhodes	President, Guaranty National Bank of White Center, Seattle, Wash.
A. E. Saunders	President, Puget Sound National Bank, Tacoma, Wash.
Dewitt Wallace	Former President, Old National Bank of Washington, Spokane, Wash.
C. Henri Labbe	President, Great Western National Bank, Portland, Oreg.

Region 14 meeting dates—October 27, 1967, and May 24, 1968.

Ralph V. Arnold (Chairman)	Chairman of the Board, First National Bank & Trust Co., Ontario, Calif.
Claude C. Blakemore	President, Southern California First National Bank, San Diego, Calif.
Carroll F. Byrd	President, The First National Bank of Willows, Willows, Calif.
Alfred Hart	President, City National Bank, Beverly Hills, Calif.
K. J. Luke	Chairman of the Board and President, Hawaii National Bank, Honolulu, Hawaii.
R. M. Prior	President, Security National Bank of Nevada, Reno, Nev.
M. A. Ruderman	Chairman of the Board and President, Palm Springs National Bank, Palm Springs, Calif.
Howard L. Sargent	President, Santa Barbara National Bank, Santa Barbara, Calif.
Carl K. Schieck	President, Pacific National Bank of San Francisco, San Francisco, Calif.
Emmett G. Solomon	President, Crocker-Citizens National Bank, San Francisco, Calif.
Linus E. Southwick	President, Valley National Bank, Glendale, Calif.
George L. Woodford, Jr.	President, Newport National Bank, Newport Beach, Calif.



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## TABLES

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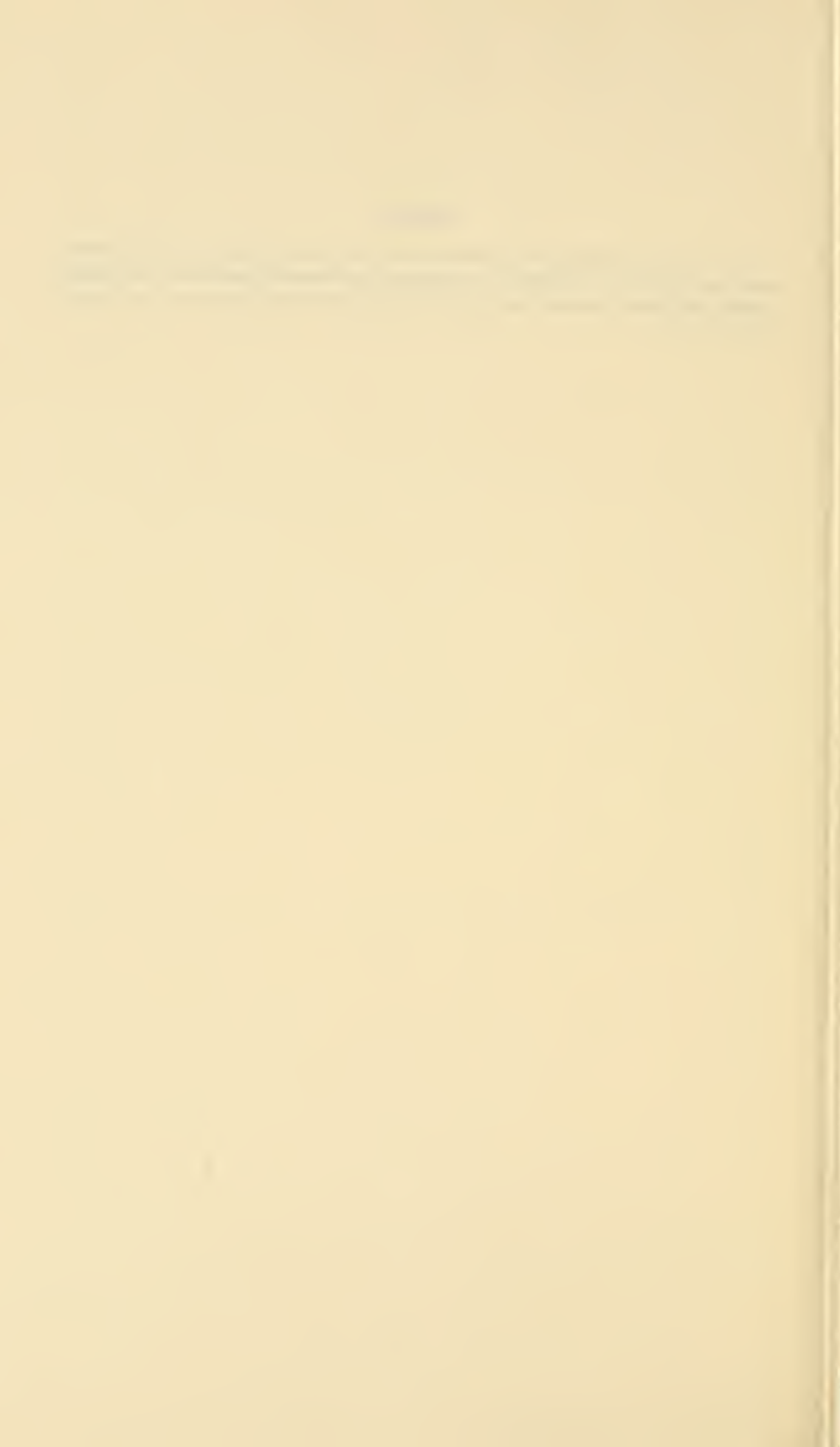
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## Tables

*The tables section previously included in the Annual Report will, beginning with this edition, be published in a separate "Statistical Appendix." The second volume is to follow this one, as soon as all fiscal year 1968 figures can be finalized and published.*





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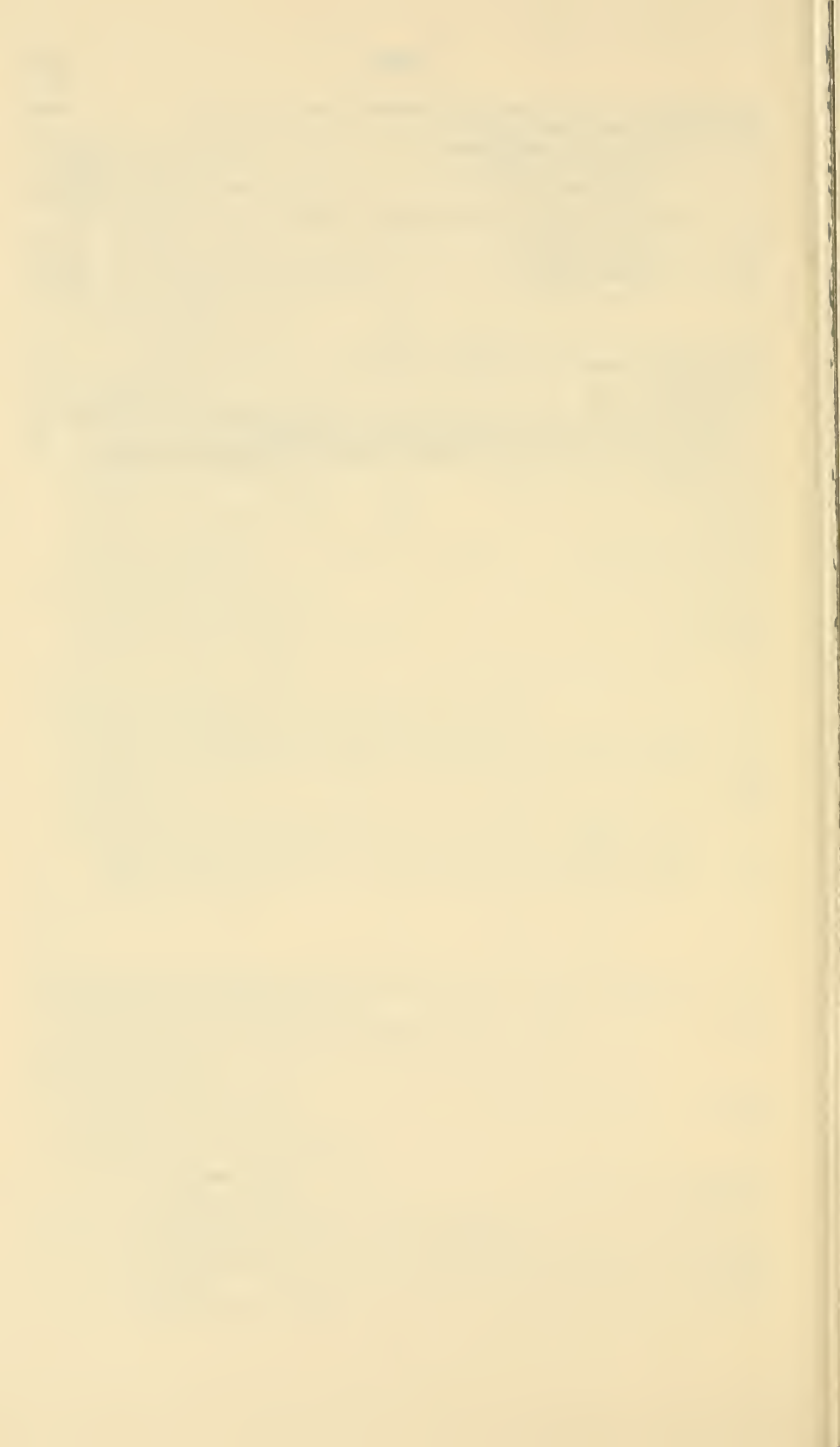


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